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ABSTRACT

This paper describes selected policy alternatives for the federal government in considering possible revisions to the funding provisions contained in the Individuals with Disabilities Education Act. Following an introductory section, Section 2 examines demographic and fiscal trends that point to increased pressure on the nation's overall system of funding special education programs and services. Section 3 discusses the federal role in special education financing. Section 4 examines special education reform efforts across the states vis a vis their possible relationship to the need for federal funding reform. Section 5 examines population-based funding as a potential federal policy option. Section 6 presents a possible poverty adjustment to the Part B allocation. Section 7 presents other possible modifications to the Part B funding mechanism. Section 8 describes ways in which the allocation or withholding of Part B funds might be used to directly influence state policies. Section 9 explores the proposal to combine funding under the IDEA and the Chapter 1 Handicapped program (Public Law 89-313). The paper concludes with a discussion of federal special education policy goals, their connection to federal fiscal policy, and other federal options for promoting these objectives. (Contains approximately 60 references.) (JDD)

Fiscal Provisions of the Individuals with Disabilities Education Act:

Policy Issues and Alternatives

Thomas B. Parrish
Deborah A. Verstegen

CSEF

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The Center for Special Education Finance (CSEF) was established in October 1992 to address a comprehensive set of fiscal issues related to the delivery and support of special education services to children throughout the U.S. The Center's mission is to provide information needed by policymakers to make informed decisions regarding the provision of services to children with disabilities, and to provide opportunities for information sharing regarding critical fiscal policy issues.

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I. Introduction

With increased calls for education reform generally, and special education reform specifically, certain provisions of the Individuals with Disabilities Education Act (IDEA) have come under heightened public scrutiny and debate. With its origins in Title VI of the Elementary and Secondary Education Act, this law was significantly expanded under P.L. 94-142, the Education for All Handicapped Children Act of 1975, which was renamed the Individuals with Disabilities Education Act (IDEA) in 1990. A key component of this landmark legislation is a state grant-in-aid program under Part B, which requires participating states to furnish all children with disabilities a free appropriate public education in the least restrictive setting. Part B funds are allocated among the states based on their number of children with disabilities, ages 3 through 21. Although never fully funded at the federal level, federal special education dollars have provided an important impetus to the provision and expansion of special education programs throughout the nation. Since implementation in 1977,[1] the number of students receiving special education services nationally has grown 40 percent with a corresponding four-fold increase in federal expenditures.[2] Over the past twenty years, the IDEA has succeeded in promoting access to schooling and equality of educational opportunity for exceptional children across the nation.

At the same time, questions are increasingly being raised about whether the IDEA might be improved to enrich special education programs and services

[1] Fiscal years (FY) are used throughout the paper.

[2] See Table 1 for a listing of references and a presentation of the data from which these percentages were derived. The fourfold increase is based on a comparison of funding for the years FY 1978 and FY 1993.

for all children and at all schools into the 21st century. *The purpose of this paper is to present and describe selected policy alternatives for the federal government in considering possible revisions to the funding provisions contained in the IDEA.*[3]

As the number of special education students continues to grow, concerns are being expressed about some of the fiscal components of the IDEA, such as the incentive to continue to identify special education students up to the 12 percent federal funding limit.[4] State and local policymakers express concerns about increasing federal requirements, especially in light of what they consider a serious default in promised levels of federal support. Similarly, lawmakers, scholars, and others, are starting to focus greater attention on *state* funding and placement policies. Do certain state funding formulas encourage student placement in more restrictive settings, or thwart the provisions of the IDEA in other ways? If they do, how should federal policies and provisions be altered or more strictly enforced to foster the full purpose and intent of the IDEA?

Overview of Policy Issues and Alternatives

Policy alternatives described in this paper include options such as the following:

- an analysis of possible changes to the basic funding mechanism of the IDEA

- consideration of federal funding provisions to hold selected states harmless from reductions in IDEA funding while the impact of implementing state and local reforms that may reduce the statewide special education counts are assessed

- possible federal sanctions in response to state and local policies that appear to conflict with the full intent of the IDEA

[3]A description of the genesis and history of the funding provisions under this act is provided in a companion paper, *Fiscal Provisions of the Individuals with Disabilities Education Act: Historical Overview*, (Verstegen, 1994).

[4]The per pupil allocation of federal special education aid to a state under the IDEA is based on the number of children and youth, aged 3 through 21, receiving special education programs and services, up to a limit of 12 percent of a state's total census count of children. However, this 12 percent calculation pertains only to the 5 through 17 student population, or 3 through 17 if the state serves all students with disabilities aged 3 through 5.

- possible supplemental federal grants to reward states pursuing policies such as finance equalization, increases in overall program adequacy, and the promotion of student placements in less restrictive settings

The Center for Special Education Finance (CSEF) recently conducted telephone interviews with state department of education officials from all fifty states regarding federal funding policy under the IDEA. The concern most often expressed by state officials is the failure of the federal government to meet the early promise of federal support. The formula provides that states may receive up to 40 percent of the national average per pupil expenditure (APPE) for each child with a disability. In fact, federal allocations have never come close to meeting this 40 percent goal. Federal funding under the IDEA was estimated to be 8.2 percent of the APPE in FY 1993. State representatives say that when they embarked on the implementation of the IDEA, they believed they had entered into a 60/40percent partnership with the federal government in support of this program, and that subsequently they have been left with the lion's share of an escalating tab.

In addition, these same interviews revealed that a large number of states are currently working on state-level special education funding reform. Over one-half of the states are actively engaged in such reform efforts, a level of activity believed to be unprecedented since passage of the Education for All Handicapped Children Act of 1975. The major factors state officials cite as driving these reform efforts are a desire to foster more inclusive special education placements, a belief that greater flexibility is needed at the local level in categorizing and labeling students, and the need to gain greater control over escalating special education costs and identification rates.

Officials from some of the states that have been front-runners in implementing these types of reforms, and other states that are considering them, expressed concern that federal funding provisions under the IDEA sometimes run counter to their reform efforts. The major concern is that because funding under the IDEA is based on a special education head count, there is a fiscal disincentive for the adoption of policies that encourage greater flexibility in the identification and provision of services to students with special needs. For example, a specific goal of some of these state-level reform efforts is to reduce the number of students identified for special education. State officials argue that these policies foster the more efficient use of limited education resources by allowing some students with learning difficulties to be served outside of special education. However, to receive federal support under the IDEA, students must be first assessed to determine whether they qualify for special education services. Moore, Strang, Schwartz, and Braddock (1988) showed that these assessment procedures cost more than $1,200 per student in 1986. Some state and local officials argue that for some students these assessment dollars would be better spent in direct intervention services. They contend that the funding provisions of the IDEA should not be strictly based on the number of special education students identified in the state.

From the federal perspective, four issues concerning the IDEA seem to predominate. First is the concern, as described above, which comes from selected reform states: should incentives to identify special education students be removed through the adoption of an identification neutral federal funding formula? Second, if there is reason to believe that the true incidence of such special education categories as learning disabilities is positively related to concentrations of poverty, should the IDEA funding be allocated at increased rates in high poverty districts? Third, do certain state funding provisions run counter to the full set of purposes underlying the IDEA? If yes, how should federal funding policies be altered to promote a greater realization of the full set of goals and purposes of the IDEA in the states? Fourth, what is the relationship between the federal Chapter 1 Handicapped program, P.L. 89-313, and the IDEA? While sentiment that these two programs should be merged seems to predominate, what are the important implementation issues?

Other funding concerns related to the IDEA focus on more traditional issues about school finance equity. For example, should funding under the IDEA be adjusted for resource cost differentials beyond state and district control? Should there be better coordination among the IDEA funds and those received through other federal education programs, such as Chapter 1, and with other health and social service programs outside of education?

Organization of This Paper

Following this introduction, Section II of this paper examines demographic and fiscal trends that point to increased pressure on the nation's overall system of funding special education programs and services. These trends, along with increased pressures for funding systems that are more supportive of inclusive placements, suggest that fairly substantial changes in the ways in which the states and the nation fund special education services may soon become necessary. Indeed, in response to CSEF's recent telephone survey of states, 18 of the 50 states indicated that they had instituted major special education finance reforms in the last five years and 29 states reported that they are currently considering such changes. As mentioned earlier, this level of activity driving state reform in special education finance is undoubtedly unprecedented since the passage of P.L. 94-142 in 1975.

Section III of the paper discusses the current federal role in special education financing. Sec ion IV examines special education ref_rm efforts oss the states vis à vis their possible relationship to the need for federal funding reform. Next, in Section V, population-based funding, one of the more recent developments in special education finance policy adopted by several states, is discussed as a potential federal policy option. In Section VI, a possible poverty adjustment to the Part B allocation is presented. Section VII presents other possible modifications to the Part B funding mechanism. Section VIII describes ways in which the allocation or withholding of Part B funds might be used to directly influence state policies. Section IX explores the proposal to combine funding under the IDEA and the Chapter 1 Handicapped program (P.L. 89-313). The paper concludes with a discussion of federal special education policy goals, their connection to federal fiscal policy, and other federal options for promoting these objectives.

II. Increased Pressure on the Nation's System of Providing Special Education Services: Demographic and Fiscal Trends

Since implementation of P.L. 94-142, there have been significant increases in the size and proportion of the special education population. The number of children and youth served under the Act has increased by 40 percent since implementation in FY 1977, with 4.9 million children and youth aged 3 through 21 being served in 1993-94. This represents approximately 11 percent of children enrolled in public elementary and secondary schools or almost 9 percent of the total population, aged 3 through 17. In FY 1977, special education students comprised 6.2 percent of the total 3 through 17 population or 8.2 percent of school enrollments.

As the number of students with disabilities has increased, the cost of special education has grown. More than $19 billion in local, state, and federal funds were spent for special education and related services during the 1987-88 school year, the latest year for which data are available. Of this amount, states and localities provided over 92 percent, with a federal share of less than 8 percent (U.S. Department of Education, 1992). Although special education costs have represented a growing share of overall elementary and secondary school spending over the past two decades, federal aid per eligible student has essentially held steady.

The future fiscal demands placed on special education programs in the United States will be profoundly influenced by the growth of both the special education and the general school-age population, together with socio-demographic shifts that will accompany the influx of new school entrants (Reynolds and Lakin, 1987). Since the passage of P.L. 94-142 in 1975, states and localities have been greatly aided in their ability to fund an expanding special education population by a substantial decrease in the size of the general student population. This situation is changing. Beginning in the mid-1980s, overall student enrollment has increased each year, creating escalating costs in both regular and special education programs and services, and mounting infrastructure requirements, including facilities, equipment and personnel. At the same time, fiscal stress across the full spectrum of social services is widespread, generating pressures on federal, state, and local budgets.

Local and State Pressures for Change

A district special education director in New Jersey describes the impact of these demographic and fiscal trends:

> . . . the percentage of students in special education programs statewide was 11.8 percent, quickly approaching the 12 percent guideline suggested by Public Law 94-142. In-district special education classes were being filled as early as October. Self-contained, in-district special education classes had been created yearly, at the rate of one or two a year, aggregating to a total of 100 classes. Not only were start-up costs for new classes a problem, but there was a serious lack of available space. Despite their best intentions, team personnel were forced to recommend placements in county and private out-of-district programs for newly classified students. These placements not only were costly to the district but may have been more restrictive than some students needed. In addition, other students, who might have benefitted from self-contained classes were being served, at least temporarily, in resource rooms or supplementary instructional programs. (Lennox, Hyman, and Hughes, 1988)

Many states have instituted reforms aimed at improving services in the regular classroom while attempting to balance needs; but service providers are increasingly finding that they have insufficient resources to assess, place, and serve special education students in a timely and appropriate manner (Goertz, 1993). Some states, such as California, have already responded to these growing pressures on special education finances and programs by capping the growth of special education aid through limits on the number of students eligible for reimbursement (Beales, 1993). In an attempt to remove the fiscal incentive to continue to identify increasing numbers of special education students, the states of Pennsylvania, Vermont, Massachusetts, Idaho, and Montana have revised their state finance formulas to decouple funding from the count f special education students. These states now primarily provide funds to localities based on a uniform percentage of total district enrollments.

These demographic and fiscal trends have also heightened competition for resources among special, compensatory, and regular education; and have focused increased attention on both the cost and effectiveness of special education programs. Critics call for change, contending that special education is reducing needed aid for regular school programs, creating incentives to misclassify students as disabled to receive additional funding, and resulting in excessive labeling and segregation of students (Beales, 1993). Proponents defend the provisions of current law, arguing that they provide the necessary incentives to locate and serve exceptional children and youth, assure that funds reach the children rather than being diverted for other purposes, and provide assistance in proportion to need. They fear that changes in the law will threaten hard won rights for children and youth with disabilities.

Pressures Predicted to Escalate Through the 1990s

These trends are expected to continue through the 1990s due to predictions of continued growth in the special education population. These assessments are based on the following factors: (a) increasing numbers of young children eligible for services following the enactment of the 1986 Amendments, which added the Preschool Grants Program and the Infants and Toddlers with Disabilities program to the IDEA; (b) the addition of new disability categories extending special education eligibility enacted in 1990; (c) the possible merger of P. L. 89-313 and Part B of the IDEA[5]; and (d) the rising rates of socio-demographic indicators present among the new school-aged population, which often act as predictors of disabilities in children and youth. Continued expansion of the special education population is also likely to be driven by

[5]Currently children or youth with disabilities can be counted for allocation purposes under only one program: P. L. 89-313 or IDEA, Part B. If these programs were merged under Part B, presumably the P.L. 89-313 child count would be counted under Part B, thereby increasing children and youth served under the IDEA.

such regular education reforms as increased academic standards and increased assessment. As educational expectations rise, more students are seen as being in need of remedial support services. This expected growth in the special education student population will further escalate the costs of special education programs and services to include such infrastructure requirements as facilities, equipment, and personnel.

Even if special education students maintain their current proportion of the school-age population, general enrollment growth through the balance of the decade will substantially increase the current pressures on states and localities to find the additional resources needed to serve these growing special and regular student populations. However, the characteristics of school-aged entrants projected through the turn of the century are substantially different from their school-aged counterparts of 1975, suggesting that these straight-line projections of growth may understate future needs.

For example, poverty, which can relate to increased rates of developmental disability in children, has risen dramatically over the past decade (Baumeister, Kupstas, and Klindworth, 1990; Hallahan, 1992; Verstegen, 1991). Although many children in poverty do well in school, too often these children have learning problems, behavior disturbances, and communication disorders (Starfield, 1982). According to the National Center for Health Statistics, twice as many individuals under 18 years of age from families earning under $10,000 annually reported family members experiencing limitations in major activities such as working, keeping house, and attending school as compared to individuals from families earning over $35,000 (NCHS, 1987). Research showing a linkage between lower state and local expenditures and higher rates of students identified as disabled suggests that poor school districts may be at greater risk of contributing to the growth in special education eligible students than are their more affluent counterparts (Noel and Fuller, 1985).[6]

Environmental factors, including poverty, are also the most crucial correlates of low birthweight babies (Boldman and Reed, 1977). As birthweight decreases below normal, risk increases for long-term neurodevelopmental conditions, such as cerebral palsy, autism, spinabifida, developmental delay

[6]However, more current research efforts are using multivariate procedures to assess the relationship between education expenditures and special education identification rates. Preliminary analyses conducted by Chambers and Martin (1994) show positive relationships between these two variables at state and local levels of analysis.

or mental retardation, hearing impairments and various mental disorders (Baumeister et al., 1990).

Coincident with the increase in child poverty are increases in other socio-demographic factors placing children at increased risk for biomedical and developmental disabilities, such as substance abuse among pregnant women, including alcohol and cocaine, especially when combined with other risk factors (Chasnoff, 1991; Chasnoff, Griffith, Freier, Murray, 1992; Schultz, 1984). The Select Committee on Children, Youth, and Families reported that recent drug-exposed births have increased 300 to 400 percent since 1985; in some hospitals, as many as one in six newborns is born "hooked" (Miller, 1989).

In addition, a major crisis is growing among youth who are engaged in substance abuse, including intravenous drug use, or are infected with AIDS, and the resulting problem of newborn perinatal infection by pregnant mothers, estimated at 1,660 in 1989 (CDS, 1989). According to Diamond and Cohen (1987), "based on current projections, HIV infection may, in the next five years, become the largest infectious cause of mental retardation and brain damage in children."

At the same time that the need for future programs and services is predicted to escalate appreciably, the demand for services is outstripping availability across the states. State fiscal stress continues unabated for many regions of the country following the 1990 91 recession, while most other regions project stability in state budgets rather than growth. Uncertainty about the impact on states of federal reform in health care and welfare and limits on federal expenditures clouds the fiscal picture. The economic outlook for the states, therefore, suggests a minimum of new services and continued restructuring of current programs in an effort to achieve greater budget efficiencies (National Governors' Association and National Association of State Budget Officers, 1994).

The Dilemma for States

States continue to struggle with this balance between the rights of students with disabilities, limited public resources, and the growing demands for competing social services. Many states are hoping at least partly to ameliorate some of these difficulties by making changes in the ways in which special education programs are financed. However, of the 29 states currently considering such changes, 20 have indicated that they are still trying to decide exactly what types of changes to make. There appears to be little evidence of simple and straightforward solutions to these difficult problems.

At the same time, growth in regular and special education, together with budgetary pressures at all levels of government, suggest that a crossroad in state education policy has been reached. Current state interest in restructuring special education will continue to build, and will focus on efforts to increase the effectiveness, as well as to contain expenditures, of programs for children with disabilities. Difficult choices about raising taxes and restructuring services will have to be made. If services are restructured, choices must be made about what changes should occur, and which programs and services should be affected. With the size and cost of the special education budget commanding increasing state resources and attendant criticism, it is possible that students with disabilities will be negatively affected. Increases in the overall scope and adequacy of the services provided over the past two decades may be lost, and equity standards could be threatened.

The current period of fiscal stress also presents opportunities. Several states are using the budget crisis as an opportunity to look more closely at the effectiveness of programs and services with an eye towards pruning the least efficient while restructuring existing services for greater effectiveness. For example, some states are examining the high cost of uniformly providing special education assessments to students with learning problems prior to the provision of remedial services. The challenge will be to balance the diverse education needs and rights of all students against limited financial resources.

How might the federal government best provide proactive leadership through these difficult times? Federal interest is in assuring that the full purpose and intent of all aspects of the IDEA are being met. This will be achieved through safeguarding services, and ensuring that limited public resources for education at all levels are being used as productively and equitably as possible. How can the modest levels of federal education resources best be used to stimulate positive change across the states and provide incentives for reform, while maintaining the rights of children and youth with disabilities to a free and appropriate education in the least restrictive setting?

III. The Current Federal Role in Special Education Funding

Federal funding under the IDEA is driven by a permanently authorized formula that ties federal financial assistance to guarantees of an appropriate education for children with disabilities (Tweedie, 1983). Federal aid to states is based on each state's number of children with disabilities who are receiving special education programs and services, adjusted by a uniform percentage of the national average per pupil expenditure (APPE). The authorized percentages of the APPE were five percent in FY 1978, 10 percent in FY 1979, 20 percent in FY 1980, 30 percent in FY 1981, and 40 percent in FY 1982 and beyond.

However, federal aid for students with disabilities has never exceeded 12.5 percent of the national APPE, and only reached fully authorized levels during the first two years that the program was effective—FY 1978 and FY 1979. In FY 1980, appropriations dropped to 12 percent of the APPE, then declined to 10 percent in FY 1981. In FY 1982 and FY 1983, although federal aid was authorized at 40 percent of the APPE, appropriations held steady at about 10 percent, falling to approximately 9 percent of the APPE in FY 1984. This is well below the 40 percent authorization level. Between FY 1985 and FY 1992, appropriations ranged from 7.9 percent (FY 1990) to 9.1 percent of the APPE (FY 1987), or less than one-fourth of the authorization level.

For FY 1993, federal funding is estimated to be 8.2 percent of the APPE or $2.05 billion, approximately $7.93 billion below the authorized level of

Table 1
Individuals with Disabilities Education Act, Part B, Section 611 - Grants to States: Cross-Time Changes

Fiscal Year	Children Served	Federal Funding	Share Per Child	APPE a/	Funded % of APPE Authorized Under P.L. 94-142 b/	Actual Funded % of APPE c/
1977	3,485,000	$ 251,769,927	$ 72	$ 1,430	5%	5.0%
1978	3,561,000	566,030,074	159	1,568	10	10.2
1979	3,700,000	804,000,000	217	1,736	20	12.5
1980	3,803,000	874,500,000	230	1,919	30	12.0
1981	3,941,000	874,500,000	222	2,168	40	10.2
1982	3,990,000	931,008,000	233	2,354	40	9.9
1983	4,053,000	1,017,900,000	251	2,640	40	9.5
1984	4,044,500	1,068,875,000	261	2,861	40	9.1
1985	4,124,000	1,135,145,000	275	3,086	40	8.9
1986	4,121,000	1,163,282,000	282	3,356	40	8.4
1987	4,167,000	1,338,000,000	321	3,510	40	9.1
1988	4,236,000	1,143,737,000	338	3,871	40	8.7
1989	4,337,000	1,475,449,000	340	4,130	40	8.2
1990	4,409,000	1,542,610,000	350	4,403	40	7.9
1991	4,557,000	1,854,186,000	407	4,704	40	8.7
1992	4,717,000	1,976,095,000	419	4,968	40	8.4
1993	4,885,000	2,052,728,000	420	5,108	40	8.2

a/APPE = Average per pupil expenditure.

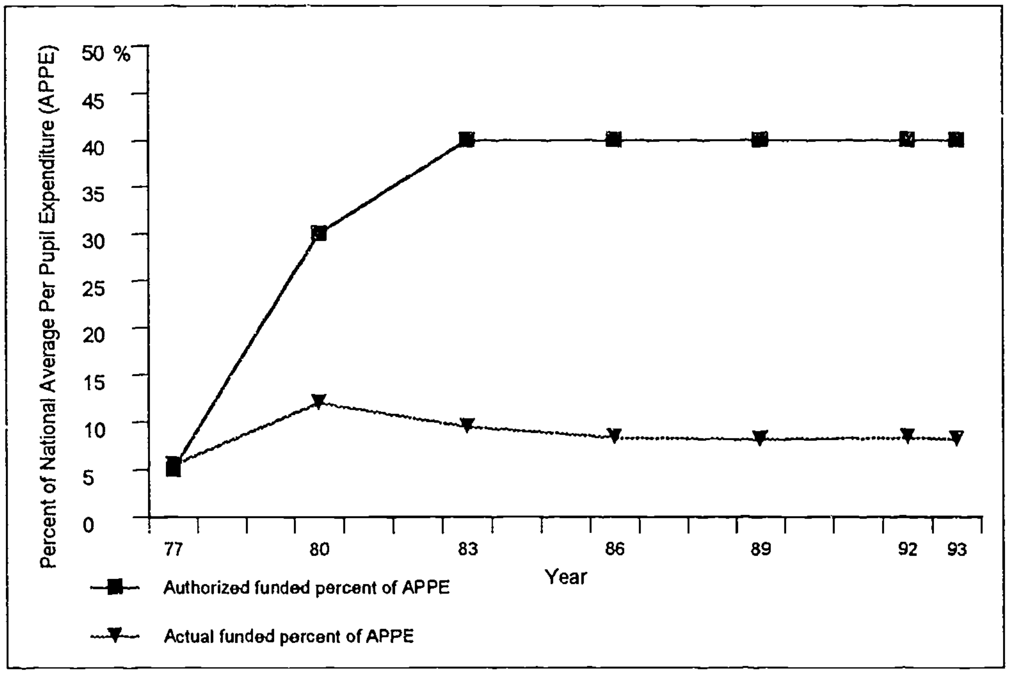
b/P.L. 94-142 is a forward funded program, indicating that funding appropriated in a given fiscal year is available to states the last 3 months of the fiscal year in which the appropriation is made and the following 12 months. P.L. 94-142's formula went into effect the fiscal year ending September 30, 1978, which was interpreted as the school year 1977-78. Thus, an entitlement of 5 percent of the APPE had to be made available under a FY 1977 appropriation (see Fraas, 1986, p. 48, footnote a).

c/Data provided by the Budget Office of the U.S. Department of Education (May 1994).

40 percent of the APPE[7] (see Table 1 and Figure 1). A total of $9.98 billion would be required for the IDEA, Part B, State Grant Program, if authorizations matched appropriations. This is nearly a fivefold increase.

[7]FY 1994 allocations are based on imputed state per pupil expenditure data for fiscal year 1991, edited data as reported by states with imputations for missing data by the National Center for Education Statistics. Child count is based on December 1, 1992, Office of Special Education, U.S. Department of Education, data.

Figure 1
IDEA, Part B, Grants to States: Authorized versus Funded Percent of APPE



The gap in the federal financial commitment to children with disabilities, as represented by the difference in funding authorized under the Act versus appropriations, can be interpreted to be substantially larger than these figures indicate, however. This is because the excess costs of providing special education and related services have grown. Federal funding authorized at 40 percent of the APPE under P.L. 94-142 was based on research studies done by the National Education Finance Project in 1970, which estimated the actual cost of educating a child with disabilities to be, on average, double the cost of educating a non-disabled child (Committee on Labor and Public Welfare, 1976, p. 205; Rossmiller, Hale, and Frohreich, 1970). Federal aid was intended to act as a catalyst for state and local assistance to children with disabilities. Therefore, it was targeted to grow to a maximum of less than one-half (40 percent) of the average excess costs of educating children with disabilities by FY 1982 and succeeding years. Since enactment of P.L. 94-142 in 1975, when the permanent authorization was established, the excess costs of educating children with disabilities have increased slightly from the previous estimate of two times the cost of educating non-disabled children to 2.3 times such cost.[8] Based on this revised estimate, 40 percent of the excess costs of educating children and youth with disabilities would require an estimated support level of approximately 52 percent of the APPE. Thus, federal aid under the IDEA, Part B, is currently less than one-fifth of initial estimates of the eventual federal contribution.

Another way to assess the federal commitment to assuring a free and appropriate education to children and youth with disabilities is to examine federal funding per eligible child. Federal aid was $162 per eligible child in FY 1977 (adjusted for inflation), growing to $424 per child in FY 1979, but has been below that amount in each succeeding year except FY 1991 and FY 1992. Currently, federal aid per eligible child is $420 for FY 1993, or 1 percent less than in FY 1979, indicating essentially no growth in federal funding over the past 14 years. If federal aid met the federal commitment of 40 percent of the APPE, $2,043 would be required per eligible pupil in FY 1993 (under current assumptions). Table 2 and Figure 2 show federal expenditures for children with disabilities for each year of the IDEA authorization, in current and adjusted dollars per eligible child. Although special education costs have represented a growing share of overall elementary and secondary school spending over the past two decades, federal aid per eligible student has essentially held steady.

Table 3 shows total aid and the percentage of federal, state, and local expenditures for children with disabilities by state, for 1987-88.[9] The fifty states, Washington, DC, and Puerto Rico spent a total of $19.2 billion for special education and related services from federal, state, and local sources, in 1987-88. *Federal aid* ranged from 65 percent of total special education expenditures in Kentucky to 3 percent of costs in Minnesota and New York. Eleven states received over 12 percent of total support from federal sources, while six states received less than 5 percent. *State expenditures* for special education and related sources, like federal aid, also varied widely, from

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[8]The excess cost of educating a child with a disability in FY 1994 was $6,498 (U. S. Department of Education, *Justifications of Appropriation Estimates to the Congress, FY 1994*, Vol. I, F-22). The national average per pupil expenditure (APPE) for FY 1994 was $4,969. For a review of special education costs, see Chaikind, S., Danielson, L. C., and Braven, M. L. (1993).

[9]1987-88 is the last year for which financial data are/will be available due to repeal of the requirement to collect these data in the 1990 Amendments.

Table 2
Individuals With Disabilities Education Act, State Grant: Cross-Time Changes in Funding and Students Served

Fiscal Year	Children Served a/	IDEA,Part B State Grants Federal Funding a/	Share Per Child a/	Federal Funding in FY 1993 Dollars b/	Share Per Child in FY 1993 Dollars b/
1977	3,485,000	$ 251,769,927	$ 72	$ 564,953,896	$ 162
1978	3,561,000	566,030,074	159	1,199,853,742	337
1979	3,700,000	804,000,000	217	1,568,555,193	424
1980	3,803,000	874,500,000	230	1,547,305,970	407
1981	3,941,000	874,500,000	222	1,405,778,048	357
1982	3,990,000	931,008,000	233	1,397,902,560	350
1983	4,053,000	1,017,900,000	251	1,457,489,904	360
1984	4,044,500	1,068,875,000	261	1,471,943,370	359
1985	4,124,000	1,135,145,000	275	1,509,123,156	366
1986	4,121,000	1,163,282,000	282	1,501,571,814	364
1987	4,167,000	1,338,000,000	321	1,681,330,800	403
1988	4,236,000	1,431,737,000	338	1,736,435,396	410
1989	4,337,000	1,475,449,000	340	1,714,648,306	395
1990	4,409,000	1,542,610,000	350	1,717,869,307	390
1991	4,557,000	1,854,186,000	407	1,976,225,723	434
1992	4,717,000	1,976,095,000	419	2,035,878,476	432
1993	4,858,000	2,052,728,000	420	2,052,728,000	420

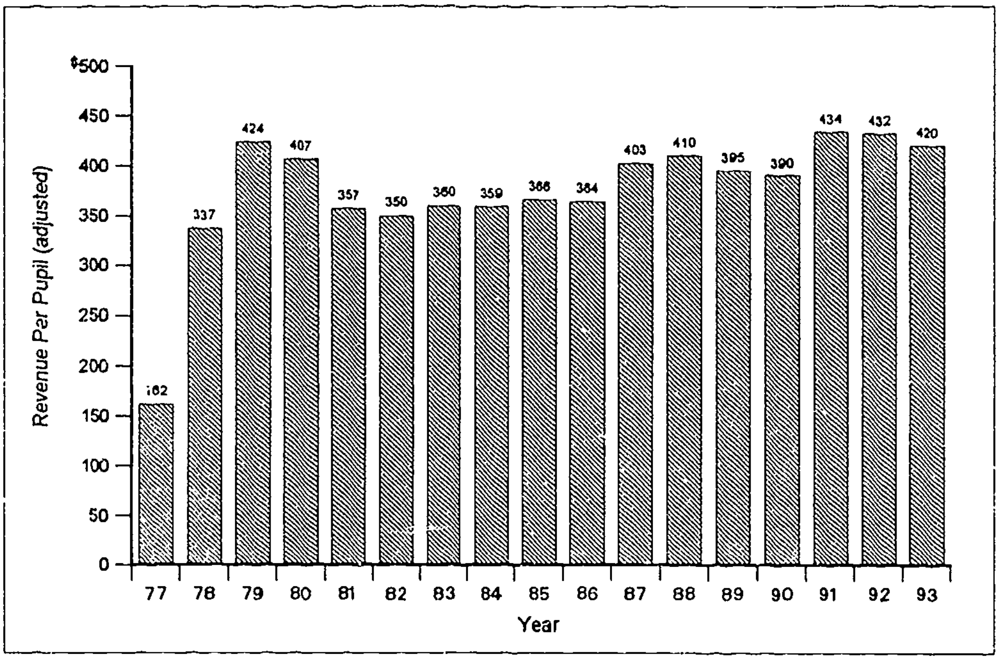
a/Source: U.S. Department of Education. *Justifications of Appropriation Estimates to the Congress, FY 1995*, Vol. I., F-18.

b/Adjusted by the Federal Budget Composite Deflator. In U.S. Department of Education (forthcoming). *Digest of Education Statistics 1994*, Table 4. Washington, DC: National Center for Education Statistics.

approximately 90 percent (or more) of total expenditures (in Hawaii, the District of Columbia, Idaho, Missouri, New Mexico, and Rhode Island) to 17 percent (or less) of total costs (in Kentucky, New Hampshire, Oregon, and Virginia). *Local revenues* as a percent of total special education expenditures ranged from 3 percent (or less) of total (in New Mexico, Oklahoma, and Alabama) to over 70 percent (in Michigan, New Hampshire, Oregon, and Virginia).[10] Overall, federal aid comprised 8 percent of total expenditures for special education and related services, 56 percent was derived from state coffers, and 36 percent was derived from local sources.

[10]Variations are due in part to differences in reporting the data, i.e., some states reported combined state and local expenditures under state sources. See U.S. Department of Education (1992).

Figure 2
IDEA, Part B, Grants to States: Revenues Per Eligible Pupil Over Time (adjusted for inflation)



In sum, while additional federal aid to match the federal commitment to students with disabilities is needed, pressures on federal budgets suggest major infusions of aid, at least in the short term, are unlikely. Thus, given the junior role the federal government plays and will apparently continue to play in special education funding, a major issue becomes how relatively modest levels of federal aid might best be used to provide incentives for state improvement and reform of special education. Given rising costs in a time of fiscal constraint at all levels of government, it appears increasingly imperative that limited public resources be used as efficiently and equitably as possible. What forms of public policy might promote these objectives and how can federal resources be used to advance policy reform at the state and local level? What might be done to better harmonize federal priorities with state fiscal policies?

Table 3
Total Special Education Expenditures, 1987-88
(Special Education & Related Services)

	Total a/	Percent Federal	Percent State	Percent Local
Alabama	$ 245,327,616	11.58%	85.39%	3.04%
Alaska	94,759,808	4.84	69.95	25.20
Arizona	190,541,825	11.38	44.94	43.67
Arkansas	79,743,473	16.28	56.93	26.79
California	1,760,879,250	6.20	78.60	15.20
Colorado	229,034,857	7.65	40.21	52.14
Connecticut	414,328,000	4.74	38.89	56.37
Delaware	51,678,931	12.89	62.47	24.64
Dist. of Columbia	39,032,732	10.32	89.68	na
Florida	807,441,711	5.76	61.92	32.32
Georgia	424,778,788	6.56	75.02	18.42
Hawaii	83,996,111	4.46	95.54	na
Idaho	58,549,239	10.16	89.84	na
Illinois	1,465,759,516	7.52	42.12	50.37
Indiana	251,729,322	14.98	52.55	32.46
Iowa	195,667,724	7.62	75.58	16.80
Kansas	175,397,831	6.86	51.19	41.95
Kentucky	223,524,336	65.30	11.30	23.40
Louisiana	259,438,868	6.91	69.81	23.29
Maine	78,910,940	13.90	49.72	36.38
Maryland	347,740,452	7.57	39.27	53.17
Massachusetts	671,473,211	6.88	36.49	56.63
Michigan	633,397,752	7.30	21.89	70.81
Minnesota	399,023,000	3.70	66.82	29.48
Mississippi	118,586,585	13.69	79.93	6.38
Missouri	288,736,260	9.64	90.36	na
Montana	38,943,312	10.11	71.54	18.34
Nebraska	73,514,055	11.11	78.89	10.00
Nevada	91,601,889	5.39	55.69	38.93
New Hampshire	92,815,443	5.37	17.42	77.22
New Jersey	500,491,873	10.66	78.46	10.88
New Mexico	119,614,213	8.37	90.64	0.99
New York	3,341,610,000	3.17	46.91	49.92
N. Carolina	277,869,119	13.11	73.68	13.21
N. Dakota	42,667,918	7.33	27.60	65.07
Ohio	1,189,440,634	4.90	56.65	38.45
Oklahoma	287,856,953	9.60	87.69	2.71
Oregon	201,238,104	8.70	17.08	74.22
Pennsylvania	717,513,364	11.03	59.47	29.50
Rhode Island	104,963,770	5.58	94.42	na
S. Carolina	168,715,167	13.70	55.78	30.52
S. Dakota	36,957,818	9.73	34.77	55.49
Tennessee	171,758,872	14.27	63.20	22.53
Texas	825,837,026	11.94	56.11	31.95
Utah	87,892,414	14.24	81.43	4.33
Vermont	49,953,033	9.18	41.30	49.52
Virginia	372,139,534	7.17	17.38	75.45
Washington	306,849,849	6.31	70.16	23.53
West Virginia	121,976,310	11.98	73.69	14.33
Wisconsin	468,972,759	6.12	59.21	34.67
Wyoming	51,702,710	4.46	79.07	16.47
Puerto Rico (PR)	48,234,267	30.27	69.73	na
States, DC, & PR	**$19,204,055,632**	**7.86%**	**55.88%**	**36.26%**

a/Data Source: U.S. Department of Education (1992). *Fourteenth Annual Report to Congress to Assure the Free and Appropriate Public Education of All Children With Disabilities.* Table AH1, p. A209-210. Total funds expended may not equal the sum of special education and related services because some states only reported total funds expended.

b/na = data not available.

IV. The Link Between Federal and State Fiscal Reform

While the major concern expressed by the states regarding federal funding policies under the IDEA is failure to meet the promised level of 40 percent support, state representatives also indicate that current federal provisions of the IDEA sometimes run counter to state reform efforts designed to enhance the efficiency and effectiveness of special education. In short, state and local administrators seem to feel that they are overregulated and underfunded. Although state reforms tend to be multifaceted, greater emphasis on local flexibility is a common characteristic. One result of these state reforms has been a reduction in the number of students identified for special education services. This has been accomplished through innovations in local practice such as utilizing special education resources in regular education classrooms, allocating resources for prereferral services, and severing the tie between state special education funding and the number of students identified for special education services.

Generally, reform states feel that this reduction in the count of special education students is a change for the better. They argue that they are often serving a broader range of students with special learning needs in a less restrictive and more appropriate manner. They contend that assessments are expensive and serve little educational purpose; that relatively few students entering special education ever get out; that the system itself can be debilitating for students by casting a stigma on them and by limiting and shaping their educational options. In short, they believe that some students with special learning needs will be better and more efficiently served outside the formal special education system.

Policymakers involved in funding reform express concern that current federal policies run counter to their efforts. Because the IDEA allocation is based on the number of students identified for special education services (up to 12 percent), states that are serving certain special need students outside of the formal special education system are losing federal funds as their counts of identified students drop. One state director argued that

> according to the USDE report, *Patterns in Special Education Service Delivery and Cost*, the cost of the assessment to determine eligibility for special education is $1,206.[11] Assessment is an exercise with little or no instructional benefit, and it is conceivable that states actually lose money by participating in the federal entitlement for special education . . . At the rate of about $400 per year [per identified student] in federal funds, the costs of the resulting services will be borne by the state for any number of years before any cost-benefit will be realized from the receipt of federal funds. (Tucker, 1993)

Such contentions raise important questions regarding special education assessment policies. Does federal policy require such high cost assessments of students for special education? Was it the intention of federal lawmakers that such costly assessment practices be undertaken? What is the range of acceptable assessment strategies? Are widely used prereferral interventions desirable? Should federal policy or executive regulations provide guidance and clarification on acceptable options for assessment and eligibility procedures? These contentions also suggest that special education funding policy that is *not* predicated upon formal assessment and identification, thereby creating incentives for such procedures, is at least worthy of consideration.

[11]The IDEA requires that students be identified and assessed to be eligible for federal special education funds. Specific standards for assessment vary from state to state. The $1,206 figure reflects the average assessment cost per pupil in all of the states included in the nationally representative sample used in this USDE study. See Moore, et al. (1988).

V. Considering Part B Funding Based on Measures of Total School-Age Population

Over the past three years, at least five states have adopted state special education funding systems that are primarily, or exclusively, based on total district enrollments, rather than on the number of students assessed and identified as eligible for special education.[12] Primary rationales for this type of system are the removal of fiscal incentives to identify and label students for special education services and the removal of incentives for more restrictive placements. These incentives are removed because the amount of funds a district receives is based on total district, rather than special education, enrollments. Districts receive the same amount of special education funding regardless of the number of students formally identified for special education services.

Although it does not appear to be the only reason, the removal of this financial incentive has been cited as instrumental in causing the number of students identified for special education to drop in these states. Special education reformers in these states argue that these types of changes lead to greater efficiencies in the provision of supplemental educational programs and services. When appropriate, students can be served outside of special education, thereby saving the high financial costs of identification and assessment and the personal cost to the student associated with the assignment of a special education label. Given the trends of escalating special education identification rates and diminishing public resources,

[12] These states are Pennsylvania, Vermont, Massachusetts, Idaho, and Montana.

reformers argue that this is the type of change in special education policy that the federal government should be encouraging. Rather, because federal funding under the IDEA is based on special education head counts, current federal law contains fiscal disincentives for these types of reform.

The issue to be addressed in this section of the paper is whether the federal funding allocation system under the IDEA should be changed from a child count system to one that is more neutral on the issue of the identification of special education students. For example, funding under the IDEA might be based on more objective criteria that are beyond local and state control, such as the total count of all students in a state. Such a policy would sever the relationship between the funding received and the number of special education students identified.

This type of funding approach would be more analogous to that found under the largest federal education aid program, Chapter 1. Virtually all federal elementary and secondary education funding programs are based on the concept of providing assistance in offsetting the supplemental costs of serving populations of students with special needs. While the IDEA assists in the supplemental costs of serving special education students, Chapter 1 is designed to provide supplemental assistance for compensatory students (i.e., students from high poverty or "disadvantaged" backgrounds). However, while Chapter 1 funding is based on factors that are clearly beyond district control (i.e., the number and percentage of students in poverty), the IDEA funding is determined by the number of students identified as being eligible for special education (up to a funding cap of 12 percent). These identification procedures have been shown to be sometimes highly subjective, resulting in determinations of eligibility that have the potential of being largely within district control (Ysseldyke, Algozzine, Shinn, and McGue, 1982). The IDEA funding based on total district enrollments (population-based funding) assumes standardized levels of special education incidence across all states and districts. This type of funding criterion would not be influenced by district policies or behaviors in labeling students, and would likely result in a reduction in the number of formal and costly assessments used to determine eligibility.

The trade-offs involved in a potential change in fiscal policy under the IDEA to a population-based formula are discussed below. The strengths and weaknesses of population-based funding are outlined, and the results of a simulation of the financial effects of such a change on each of the fifty states are presented and reviewed.

Arguments in Favor of Federal Funding Based on Total Enrollments

The change in federal policy to a population-based funding system is essentially a return to the way funds were distributed prior to the enactment of P.L. 94-142, when allocations to states were based on the number of all children (i.e., the population of all students aged 3 through 21). What are the arguments supporting this change in federal policy?

■ Working outside special education is more cost-effective.

At the same time that the number of students needing supplemental educational services appears to be growing, there is increasing competition for public funds and growing signs of fiscal stress among public agencies at all levels. As described earlier, the special education assessment and referral process is costly; an initial assessment has been estimated to cost $1,206 per student (Moore et al., 1988). For those students receiving special education transportation services, the average cost has been shown to be $1,583 per year. Two separate studies have found that only about 62 percent of special education dollars at the local level were used for direct special education instructional services (Moore et al., 1988; Shields, Jay, Parrish, and Padilla, 1989). For students with mild disabilities in resource room programs, an average of 22 percent of all funds for special education services were spent on assessment and 15 percent on special education program administration (Shields, et.al., 1989). Concerns about the cost-effectiveness of assessment practices are raised by a number of studies that find the tests and methods used to classify students as learning disabled do not provide information that resource specialists or regular teachers report to be of use in developing instructional programs for these students (Lovitt, 1967; Shepard and Smith, 1981; Ysseldyke et al., 1982).

■ Some students will be better served outside special education.

In addition to possible cost savings, there are other important reasons for serving students outside special education when possible. Regardless of the label assigned to the student, special education programs, by their very nature, tend to isolate students and lead to placements in more restrictive settings. Affiliation with special education tends to have a negative connotation for students that stays with them throughout their schooling, and perhaps throughout their lives. For example, such labels as "learning disabled" or "mentally retarded" clearly have negative associations. Furthermore, once students are placed in special education, they tend to stay in the program. The program does not seem oriented to short-term interventions that return students to regular education status in a relatively brief period of time. As it currently functions, the special education bureaucracy seems to hinder school-level flexibility and discretion.

- **Overidentification is now the major issue.**

As described above, when federal special education funding shifted from a population-based system to a special education pupil count system, large segments of the special education population were being underidentified and/or underserved. However, states are reporting that *over*identification rather than *under*identification is now their major concern.[13] Within the special education population, the much higher identification rates for minority and male students also raise important questions about identification procedures.

- **Procedural safeguards would remain in place.**

Movement to a population-based funding system would not jeopardize any of the procedural safeguards under current law. While the number of students identified with mild disabling conditions (i.e., students with learning disabilities) may be expected to diminish under such a system, most exceptional students are likely to be unaffected by such a change. In addition, all students with disabilities would be protected under Section 504 whether they are labeled as special education or not.

[13]This contention is supported by an overall 29.9 percent increase in the number of children served in the IDEA, Part B, and Chapter 1 Handicapped programs since the inception of Part B in 1976 through the 1990-91 school year. The 1990-91 school year showed an increase of 2.8 percent, which is the largest increase in a decade. However, the larger increase in this year is primarily due to the additional availability of early childhood programs.

Arguments Against Federal Funding Based on Total Enrollments

Some special education officials, policymakers, and others disagree with the concept of a population-based funding system. Some of the positions they express follow:

- **The system would not be fair to states and districts with higher identification rates.**

  A population-based funding system assumes comparable incidence rates of special education students across the states. States with greater numbers of identified special education students would tend to lose federal support under a population-based funding system. They might have higher percentages of special education students because of differences in the characteristics of the students they enroll and because they have been especially proactive in identifying the needs of, and setting up programs for, special needs students. A population-based funding system would financially penalize those very districts that have been most responsive to the state and federal call to fully identify and serve all special education students.

- **Procedural safeguards cannot be maintained if students are not identified.**

  The foundation for the whole system of procedural safeguards that has been established for special education students is based on the identification of children and youth with disabilities. Students cannot be protected under the law unless they are assessed and identified. Population-based funding would create fiscal incentives to underidentify students with disabilities, abridging their right to a free and appropriate education.

- **A retreat from the traditional federal role of fostering and promoting special education services would occur.**

  The traditional federal role in special education has been one of leadership for, and protection of, students with disabilities. The states have been encouraged to "seek and identify" all eligible students. A return to a population-based funding system would send a message to states and communities that the federal government is backing away from this position;

this would ultimately undermine the rights of children with disabilities to a free and appropriate education in the least restrictive setting.

- **Fiscal accountability would be jeopardized.**

  Because funds cannot be tracked to students who are not identified, a population-based funding system reduces assurances of fiscal accountability at a time when such controls are seen as increasingly important by taxpayers. In a climate of fiscal stress, without accountability, funds will be diverted to general programs and services for non-special education students.

- **Current levels of special education funding would be threatened.**

  Traditional levels of support for special education services would likely diminish when they can no longer be attributed to specific special education students with legal entitlement. Overall funding for special education services could erode over time.

Implementation Issues of Federal Funding Based on Total Enrollments

If the federal allocation formula under the IDEA was changed to a population-based system, important implementation issues would likely arise. For example, should the expenditure of funds be limited? Current federal policy requires that federal funds allocated under the IDEA be spent only on the special education students who generate them. Under a population-based funding system, could federal dollars from the IDEA be spent on all students, all students with remedial education needs, or only on special education students? Policies regarding the use of state special education funds vary considerably from state to state. A recent survey revealed that a majority of the states do *not* require that state funds be spent exclusively on special education students. This is an important issue as it relates to the use of state funds. If, as under current policy, special education resources cannot be used for other students with learning difficulties, it still may be necessary for LEAs to identify students as special education to provide the special assistance they require.

However, this type of restriction on the use of just *federal* funds may be less critical to LEAs and the states. Since federal funds are sufficiently small, a requirement that they be spent only on special education students would be unlikely to restrict local flexibility substantially. Perhaps the most important issue relating to this type of federal funding policy is the example it sets for provisions associated with the much more substantial state funding. States look to the federal government for guidance in the types of incentives and disincentives their policies should be attempting to foster. Federal policy is more likely to affect local practice by the example it sets for state fiscal policy than through the limited financial leverage it wields.

Should states and districts be "held harmless"? States and LEAs will need time to adjust to any new federal policy direction, and to avoid financial hardship and the possible loss of services if they have traditionally identified relatively large percentages of students with special needs. Thus, if population-based funding were enacted, it may be desirable to phase in any revised federal funding policy over some specified period of time in a way that will ensure that no SEAs or LEAs lose funds from their prior year's allocation.

There are also important questions about the most appropriate population base to be used. For example, the population count could be based on public school enrollments in the state. As students in private schools are also eligible for special education services at public expense, it would seem that total state enrollments under this type of federal funding system should also include students in private schools. However, as private school enrollments will vary considerably from state to state, this implementation decision could substantially affect the distribution of funding across the states. In some states, accurate and complete counts of private school enrollments may not be available on an annual basis. An alternative measure that could be used is the total census count of children between the ages of 3 and 21 in a state. However, these data are only updated every ten years. Implementation issues are associated with each of these alternative approaches to counting students, and each will have varying redistribution effects.

Redistribution Effects

The population-based funding illustration shown in Table 4 uses the estimated count of age 3 through 21 residents in the state as its base. The purpose of this example is to show the effects of one form of a population-based funding system on the amount of Part B dollars currently being received by the states. It assumes that 100 percent of the funding allocation would be based on these population estimates and that the total amount of

Table 4
Estimated Redistribution Effects Under a Population-Based System

	Actual Part B Grant 1992/93	Estimated Resident Pop. 1992: Age 3-21	Population-Based Pt B Grant 1992/93	Gain or Loss From a Pop-Based System	Percent Gain or Loss
Alabama	$ 40,121,862	1,155,768	$ 32,195,398	$ (7,926,464)	-19.8%
Alaska	5,148,324	184,188	5,130,793	(17,531)	-0.3
Arizona	24,285,654	1,065,950	29,693,403	5,407,749	22.3
Arkansas	18,751,830	670,305	18,672,204	(79,626)	-0.4
California	200,622,009	8,404,782	234,125,970	33,503,961	16.7
Colorado	22,708,014	942,826	26,263,626	3,555,612	15.7
Connecticut	25,387,257	794,300	22,126,244	(3,261,013)	-12.8
Delaware	4,737,016	178,772	4,979,923	242,907	5.1
Dist. of Columbia	1,137,654	125,646	3,500,030	2,362,376	207.7
Florida	99,773,518	3,194,673	88,991,709	(10,781,809)	-10.8
Georgia	43,099,754	1,896,573	52,831,471	9,731,717	22.6
Hawaii	5,415,839	302,533	8,427,444	3,011,605	55.6
Idaho	8,873,864	340,956	9,497,766	623,902	7.0
Illinois	82,748,038	3,140,735	87,489,197	4,741,159	5.7
Indiana	45,450,032	1,565,409	43,606,473	(1,843,559)	-4.1
Iowa	24,586,762	779,259	21,707,258	(2,879,504)	-11.7
Kansas	18,187,305	708,859	19,746,176	1,558,871	8.6
Kentucky	32,350,420	1,042,458	29,039,003	(3,311,417)	-10.2
Louisiana	30,494,614	1,299,403	36,196,535	5,701,921	18.7
Maine	11,023,403	327,976	9,136,192	(1,887,211)	-17.1
Maryland	36,079,237	1,248,747	34,785,447	(1,293,790)	-3.6
Massachusetts	55,977,325	1,453,544	40,490,330	(15,486,995)	-27.7
Michigan	64,287,893	2,629,520	73,248,648	8,960,755	13.9
Minnesota	32,950,587	1,247,292	34,744,917	1,794,330	5.4
Mississippi	24,737,520	804,162	22,400,963	(2,336,557)	-9.4
Missouri	41,904,337	1,414,507	39,402,905	(2,501,432)	-6.0
Montana	7,197,085	237,166	6,606,563	(590,522)	-8.2
Nebraska	14,406,869	460,216	12,819,906	(1,586,963)	-11.0
Nevada	8,175,786	336,618	9,376,926	1,201,140	14.7
New Hampshire	7,896,801	292,214	8,139,995	243,194	3.1
New Jersey	73,054,014	1,914,046	53,318,203	(19,735,811)	-27.0
New Mexico	15,529,365	480,608	13,387,952	(2,141,413)	-13.8
New York	125,568,396	4,574,769	127,436,051	1,867,655	1.5
North Carolina	51,397,213	1,789,361	49,844,943	(1,552,270)	-3.0
North Dakota	4,869,339	183,594	5,114,246	244,907	5.0
Ohio	82,817,272	2,982,279	83,075,202	257,930	0.3
Oklahoma	27,533,519	910,566	25,364,982	(2,168,537)	-7.9
Oregon	19,295,872	796,281	22,181,427	2,885,555	15.0
Pennsylvania	78,161,371	3,018,856	84,094,101	5,932,730	7.6
Rhode Island	8,431,830	248,603	6,925,155	(1,506,675)	-17.9
South Carolina	32,227,929	1,013,215	28,224,402	(4,003,527)	-12.4
South Dakota	5,989,377	212,441	5,917,816	(71,561)	-1.2
Tennessee	44,210,780	1,335,112	37,191,255	(7,019,525)	-15.9
Texas	144,662,710	5,237,382	145,893,985	1,231,275	0.9
Utah	19,384,361	675,822	18,825,888	(558,473)	-2.9
Vermont	4,141,765	154,802	4,312,208	170,443	4.1
Virginia	48,688,884	1,658,593	46,202,233	(2,486,651)	-5.1
Washington	35,424,175	1,393,266	38,811,209	3,387,034	9.6
West Virginia	17,508,072	487,541	13,581,079	(3,926,993)	-22.4
Wisconsin	35,942,408	1,396,590	38,903,804	2,961,396	8.2
Wyoming	4,689,084	145,920	4,064,789	(624,295)	-13.3

Part B aid would be allocated under the alternative population-based system at current funding levels. Although such an implementation scenario may not be very probable, it illustrates the states most likely to lose and to gain through the transition to such a system over the long run. The aid calculation in this scenario is a very simple one. Each state's share of the total Part B allocation is based on its relative share of the nation's overall resident population, ages 3 through 21.

States currently identifying more special education students than the national average would lose under such a system, and states identifying less than the average would gain. Although the overall number of states gaining and losing under such a system is fairly evenly split, gains and losses in excess of 15 percent are shown to occur in 14 of the states. At the extremes across the states, the results of this particular simulation show a 27 percent loss of funds in Massachusetts and New Jersey as compared to a 56 percent gain in Hawaii, and a gain of over 200 percent in the District of Columbia. The extremes in terms of absolute dollars are a nearly $20 million loss in New Jersey, as compared to more than a $33 million gain for California. Thus, the potential redistribution effects of such a change are considerable.

Maintenance of Federal Funding for States with Approved Reform Plans

Many of the arguments in favor of and opposed to this type of change in federal policy are compelling. Concerns regarding loss of fiscal accountability and potential erosion of federal financial support for special education are real. In addition, the redistribution effects for states that have traditionally identified more special education students, as shown above, is also considerable in some instances. These states, which would most likely be facing problems in funding services for special education students, could suddenly experience a substantial cut-back in federal support.

On the other hand, it also seems counter to the federal interest to stifle well thought out state-level reforms designed to increase the efficiency of services provided to students with special needs. It may be in the federal interest to foster such reforms on a test basis to determine whether they should be considered for incorporation into federal policy. Therefore, rather than moving to a population-based funding system nationwide, an alternative federal policy could be to maintain federal funding at some specified pre-reform levels in selected states or localities making specific reform efforts. On a trial basis, states and/or localities might be "held harmless" from federal funding reductions as they implemented policies that would likely lead to alternative services or placements for students with mild disabilities (e.g., providing services to such students in less restrictive settings). In the pilot states, these policies could be coupled with independent evaluations of the impact of this type of reform on the provision of services to students with special needs (i.e, whether the full set of purposes under the IDEA is being advanced), and on selected indicators of student outcomes.

VI. Considering a Part B Poverty Adjustment

The possibility of adjusting the IDEA, Part B funding to reflect variations in poverty rates across the states is also a consideration. The rationale is that high concentrations of poverty have been associated with greater numbers of children being identified as eligible for special education and should therefore be the basis of targeted resources in an effort to provide more intensive and earlier interventions. This line of reasoning does *not* suggest that poverty necessarily equals disability for individual children. Indeed, a related equity issue may be the disproportionately low number of children in poverty receiving gifted and talented education services. However, substantial evidence suggests that sustained and intensive poverty results in conditions leading to higher special education incidence rates. In considering the need for a poverty adjustment, if it can be shown that variations in *incidence* rates associated with poverty are already fully translated into differing special education *identification* rates, a poverty adjustment may be less warranted. That is, if the increased needs of high poverty districts are fully reflected in higher identification rates, or in more students receiving services, more funds would already be flowing to high poverty districts, which may be sufficient to meet their additional needs. Thus, an important issue in considering the appropriateness of a poverty adjustment to Part B funding is the extent to which a strong linkage already exists between concentrations of poverty and greater allocations of special education funds.

Relationships Between Poverty and Incidence of Disability

Research describing relationships between at-risk conditions associated with poverty and increased prevalence of such disabling conditions as developmental disabilities, learning problems, behavior disturbances and speech impairments were briefly described and cited in the introductory section of this paper. These findings seem to substantiate a positive relationship between the interlocking effects of sustained and intensified poverty and the increased *probability* of disabling conditions. The second component of this question, however, is less clear. That is, what is the relationship between true levels of incidence and special education identification rates? Put another way, how does economic disadvantage compound incidence? Research has demonstrated that identification decisions for students with mild disabilities, which make up the vast majority of the special education student population, are based on some combination of objective criteria, subjective criteria, and local, state and federal policies (Ysseldyke, Algozzine, Shinn and McGue, 1982; Ysseldyke, Algozzine, Richey and Graden, 1982). For these reasons, the linkages that are known to exist between at-risk conditions related to poverty and incidence levels of disabling conditions may *not* translate into positive relationships between poverty and special education identification rates.

Although more work needs to be done to explore this relationship at district and state levels of analysis, research conducted on state-level data from the years 1976, 1980, and 1983 (McLaughlin and Owings, 1993) found a significant *negative* relationship ($r \leq -.05$) between the percentage of school-age children living in poverty and identification rates for learning disabled students for two of these three years. The authors also found a significant negative relationship ($r \leq -.05$) between poverty and identification rates for emotionally disturbed students in one of these three years. *No* significant relationship between poverty and *overall* special education identification rates was shown for any of the three years.

In addition, McLaughlin and Owings found that identification rates for the types of students that would be expected to be most affected by at-risk conditions related to the interlocking effects of sustained and intensified poverty (i.e., students with learning disabilities) are *positively* related to such indicators of *prosperity* as per pupil expenditures and per capita income.

Positive, significant relationships ($r \leq .05$) for both of these variables were found for all three of these years. These data seem to support a lingering concern regarding special education that in the milder disability categories, which are more subjectively determined, *the ability of local districts to leverage state and federal dollars for special education may be more related to local savvy and the presence of additional revenues than true indicators of educational need.*

However, further work is needed to explore these questions. For example, McLaughlin and Owings used bivariate analysis procedures. Multivariate analyses would allow the exploration of these relationships while taking into account other types of variables that might affect them. In addition, much of these data were from the early years of P.L. 94-142 when the program was just beginning. At that time, the wealthier states clearly had better developed special education service systems—a bias which could substantially influence these findings.

Multivariate analyses were used to address this question directly in the third of this series of papers on special education federal finance policy related to the IDEA. Chambers and Martin (1994) found no significant relationship between concentrations of poverty and special education identification rates at the state level. However, special education identification rates and average per capita income by state were found to be negatively related.

Another important consideration is the exclusionary clause in the learning disabilities definition included in the IDEA, Part B (Section 602 (a) (1) (a) (15)) which states in part:

> The term "children with learning disabilities".... does not include children who have learning problems which are primarily the result of....environmental, cultural, or economic disadvantage.

Further clarification may also be needed to realign this provision with a change in federal policy regarding the need for special education service and poverty. Because of the difficulties entailed in untangling the root causes of learning problems, this provision may operate to restrict the right of economically disadvantaged children to receive special education services.

These findings raise some interesting questions and emphasize the need for further analyses at district and school levels. What is the nature of the relationship between special education identification rates and poverty? For example, is the proportion of students identified as eligible for special education services greater in higher poverty districts than in lower poverty districts? If there is a negative relationship between special education identification rates and poverty, are children in poverty particularly vulnerable to being underserved?

Implications for Funding Under the IDEA

The findings discussed in the previous section raise important questions about the need to revise funding mechanisms for special education and to provide other types of targeted funds for remedial education services. To ensure the most efficient use of these limited resources, it is important that resources are allocated in proportion to educational need rather than according to variations in local practices or the ability to document evidence of such need. These findings also add to the growing debate concerning the efficiency and utility associated with current assessment procedures used to document eligibility for special education services—in particular, whether this very expensive, individualized process for determining funding eligibility is the most efficient way of using scarce special education resources, at least for mildly disabled students. In addition, such assessment procedures for these types of students have been widely criticized for their subjectivity and lack of utility to the teacher, who will provide service once eligibility has been determined. However, these criticisms go beyond the question of the relative utility of these assessment procedures to the very disturbing question of whether, at least from a national perspective, they systematically direct targeted funds *away* from those poverty areas in which the overall need for services is the greatest.

These findings suggest that the introduction of some type of poverty adjustment to the allocation of Part B funds may be needed. However, given the relatively small proportion of special education costs that are covered by the federal allocation, it seems unlikely that the addition of such a poverty factor alone would be sufficient to fully address the issues relating to poverty and the availability and provision of special education services, as described above. Moreover, a poverty adjustment could dilute already modest federal aid to students currently receiving special education programs and services in districts with lower levels of poverty. Issues such as these require further research on the full set of questions related to whether current state and federal fiscal and program policy fully support realization of the goals and objectives of the IDEA.

Nonetheless, limiting the discussion in this section to the possible introduction of a Part B poverty factor, one option would be to adjust funding to states based on the poverty count utilized for the ESEA, Title I, Chapter 1 program. A problem with this factor, however, is that it is based on Census data and therefore is updated only every ten years, resulting in a slippage in the link between need and funds over time. When the Census is updated, large shifts in funding occur among states. If a factor for poverty were put into the IDEA, a corrective could be to stipulate adjustment at more frequent intervals. Although this type of recommendation has repeatedly been made for the federal Chapter 1 program, no alternative method for adjusting the poverty function has been agreed upon. However, current proposals before Congress, if enacted, may remedy this situation.

The IDEA might also create new legislative authority to set aside a separate portion of funds for concentration grants, which are reserved for areas with especially high concentrations of poverty. These grants are currently awarded under ESEA, Title I, Chapter 1, on the basis of concentrations of poverty within counties/LEAs. Research shows that concentrations of poverty and sustained poverty can be related to children at risk for disabilities at all degrees of severity. However, increases in learning disabilities are particularly affected because "it takes lower levels of biomedical and psychological stress to result in a mild disability than a severe disability" (Hallahan, 1992). Concentration grants under the IDEA, then, would allow an additional set-aside of money that could be used to serve all children within high poverty schools. Funds could be integrated with Chapter 1 assistance to provide coordinated services to children and youth before they are identified or referred for special education assessments.

State by state effects of the introduction of one type of poverty adjustment to Part B funds are shown in Table 5. The poverty measure used in this example is the percent of children aged 5 through 17 in poverty in the state according to the 1990 Census.[14] This percent for each state is compared to the average for the nation in that year, which is 17.2 percent. The

[14]Another implementation issue is that while IDEA funding is targeted to students aged 3 through 21, the most appropriate census age grouping that could be used to derive poverty adjustment factors covers only ages 5 through 17.

relationship of these two numbers is used as the basis for calculating a poverty index for each state. This index ranges from 1.89 in Mississippi, with 32.5 percent of its children, aged 5 through 17 living in poverty, to 0.39 in New Hampshire, where only 6.9 percent of this age group is below the poverty line. The multiplication of this index by the 1992 count of Part B students produces a revised Part B student count that is weighted by this poverty factor.

Distributing the IDEA funds to states based on these weighted student counts results in a considerable reallocation of resources across the states. Once again, it is important to note that this is an extreme implementation example. It allows for no phase-in over time, assumes no increase in overall funding that could be used to ease this type of transition, and allows for a 100 percent poverty adjustment. Although it is unlikely that any poverty adjustment would be implemented under such stringent conditions, it illustrates the potential effects of such an adjustment on individual states at its extreme. Under such a system, relatively high poverty states would gain and low poverty states would lose Part B assistance. In percentage terms, Mississippi would nearly double its Part B allocation, while New Hampshire would see its aid cut by nearly 60 percent. The dollar loss would be greatest in New Jersey, at over $26 million, and the gain would be greatest in Texas, at over $53 million. To consider the appropriateness of such reallocations, a better understanding of the relationship between poverty and levels of need is required.[15]

As suggested above, an alternative course of action would be to create a set-aside of new money for high poverty schools. The poverty index would then be applied solely to new dollars generated specifically for preventative special education services and targeted to *schools* with high concentrations of poverty. It could be used for all children at high poverty schools and blended with other revenue streams to prevent problems associated with multiple risk factors known to accompany concentrations of poverty.

[15] See Chambers and Martin (1994) for a full discussion of this relationship.

Table 5
Estimated Redistribution Effects Under a Poverty-Adjusted System

	Actual Part B Grant 1992/93	% Child Below Pov. '90	Pt B Count 1992	Wgtd Pov Index	Poverty Adj Pt B Count a/	Poverty Adj Pt B Grant 1992/93	Gain or Loss From A Pov-Adj. System	Percent Gain or Loss
Alabama	$ 40,121,862	23.2%	95021	1.3509	128367	$ 52,803,688	$ 12,681,826	31.6%
Alaska	5,148,324	10.2	12567	0.5936	7459	3,068,379	(2,079,945)	-40.4
Arizona	24,285,654	20.5	59281	1.1908	70593	29,038,219	4,752,565	19.6
Arkansas	18,751,830	23.9	45573	1.3884	63273	26,027,426	7,275,596	38.8
California	200,622,009	17.5	490022	1.0179	498802	205,181,964	4,559,955	2.3
Colorado	22,708,014	14.0	55430	0.8137	45102	18,552,514	(4,155,500)	-18.3
Connecticut	25,387,257	10.1	61851	0.5868	36297	14,930,836	(10,456,421)	-41.2
Delaware	4,737,016	11.2	11563	0.6540	7562	3,110,583	(1,626,433)	-34.0
Dist. of Col.	1,137,654	23.9	2777	1.3891	3858	1,586,799	449,145	39.5
Florida	99,773,518	17.7	243600	1.0280	250418	103,009,333	3,235,815	3.2
Georgia	43,099,754	19.0	105206	1.1067	116431	47,893,617	4,793,863	11.1
Hawaii	5,415,839	11.0	13220	0.6397	8456	3,478,525	(1,937,314)	-35.8
Idaho	8,873,864	14.8	21654	0.8585	18591	7,647,406	(1,226,458)	-13.8
Illinois	82,748,038	16.1	201987	0.9336	188573	77,569,268	(5,178,770)	-6.3
Indiana	45,450,032	13.0	110943	0.7553	83798	34,470,196	(10,979,836)	-24.2
Iowa	24,586,762	13.0	60017	0.7544	45275	18,623,776	(5,962,986)	-24.3
Kansas	18,187,305	13.0	44241	0.7581	33539	13,796,293	(4,391,012)	-24.1
Kentucky	32,350,420	23.4	78987	1.3604	107455	44,201,659	11,851,239	36.6
Louisiana	30,494,614	30.2	74497	1.7581	130970	53,874,425	23,379,811	76.7
Maine	11,023,403	12.8	26908	0.7457	20066	8,254,011	(2,769,392)	-25.1
Maryland	36,079,237	10.8	88069	0.6263	55155	22,687,895	(13,391,342)	-37.1
Massachusetts	55,977,325	12.5	136640	0.7246	99003	40,725,021	(15,252,304)	-27.2
Michigan	64,287,893	16.9	160054	0.9838	157466	64,773,551	485,658	0.8
Minnesota	32,950,587	11.7	80439	0.6795	54655	22,482,104	(10,468,483)	-31.8
Mississippi	24,737,520	32.5	60384	1.8917	114226	46,986,762	22,249,242	89.9
Missouri	41,904,337	16.5	102305	0.9565	97855	40,252,442	(1,651,895)	-3.9
Montana	7,197,085	18.7	17565	1.0897	19140	7,873,207	676,122	9.4
Nebraska	14,406,869	12.3	35167	0.7135	25092	10,321,507	(4,085,362)	-28.4
Nevada	8,175,786	12.1	19957	0.7063	14096	5,798,499	(2,377,287)	-29.1
New Hampshire	7,896,801	6.9	19276	0.3986	7683	3,160,516	(4,736,285)	-60.0
New Jersey	73,054,014	11.0	178324	0.6390	113951	46,873,485	(26,180,529)	-35.8
New Mexico	15,529,365	26.4	37910	1.5345	58173	23,929,627	8,400,262	54.1
New York	125,568,396	18.2	306511	1.0582	324361	133,425,776	7,857,380	6.3
North Carolina	51,397,213	16.2	125468	0.9401	117949	48,518,226	(2,878,987)	-5.6
North Dakota	4,869,339	16.0	11887	0.9291	11044	4,542,958	(326,381)	-6.7
Ohio	82,817,272	16.3	202156	0.9499	192036	78,993,758	(3,823,514)	-4.6
Oklahoma	27,533,519	20.1	67221	1.1704	78677	32,363,543	4,830,024	17.5
Oregon	19,295,872	13.9	47107	0.8085	38084	15,665,934	(3,629,938)	-18.8
Pennsylvania	78,161,371	14.7	190791	0.8556	163241	67,149,126	(11,012,245)	-14.1
Rhode Island	8,431,830	12.6	20582	0.7325	15076	6,201,672	(2,230,158)	-26.4
South Carolina	32,227,929	20.0	78574	1.1627	91356	37,579,095	5,351,166	16.6
South Dakota	5,989,377	18.8	14609	1.0941	15984	6,574,865	585,488	9.8
Tennessee	44,210,780	19.6	107940	1.1387	122908	50,558,275	6,347,495	14.4
Texas	144,662,710	23.5	353120	1.3641	481680	198,138,834	53,476,124	37.0
Utah	19,384,361	11.2	47342	0.6528	30907	12,713,647	(6,670,714)	-34.4
Vermont	4,141,765	11.3	9500	0.6552	6225	2,560,518	(1,581,247)	-38.2
Virginia	48,688,884	12.7	118894	0.7355	87445	35,970,287	(12,718,597)	-26.1
Washington	35,424,175	13.3	86470	0.7716	66718	27,444,515	(7,979,660)	-22.5
West Virginia	17,508,072	24.2	42825	1.4061	60218	24,770,504	7,262,432	41.5
Wisconsin	35,942,408	13.5	87735	0.7862	68974	28,372,412	(7,569,996)	-21.1
Wyoming	4,689,084	12.8	11446	0.7469	8550	3,516,867	(1,172,217)	-25.0

a/The weighted poverty index is calculated by dividing the percent children, aged 5 through 17, in poverty in each state by the national average (17.2 percent, 1990 census). This index is then multiplied by the 1992 Part B student count to produce the poverty-adjusted student count.

While some form of poverty adjustment deserves serious consideration, it brings into further question the most appropriate relationship between special and compensatory education under the federal Chapter 1 program. As Chapter 1 is designed specifically to allocate supplemental federal funds to poverty areas, a poverty adjustment under the IDEA may further confuse the unique roles of these two federal programs. However, a poverty adjustment under the IDEA may appeal most to those policymakers and scholars who have called for a more coherent education policy that provides an integrated approach across all programs, and to those who find preventative services imperative if the growth in special education is to be curtailed.

It appears that a careful investigation may need to be undertaken of the interaction of all federal, categorical programs designed to provide supplemental education aid to mediate the effects of poverty. To what extent do these funds actually get targeted to schools and districts with high poverty concentrations, and how do they interact with known variations and inequalities in state and local revenues? When all of these funding sources are taken into consideration, do students in high poverty locations receive more or less support for their education? In addition, do students actually receive supplemental support (i.e., more funds overall) to ameliorate the effects of at-risk factors known to be associated with high poverty conditions, as is the intention of such federal legislation as the IDEA and Chapter 1?[16]

The relationship between poverty and actual special education identification rates is further complicated by such factors as comparison group norms, expectations, and standards. Would more uniform standards for assessment of such areas as learning disabilities address this issue, at least in part? Or might a more broad-based solution be to assure high standards, curricula, and opportunities to learn aimed at upgraded outcomes for all children and at all schools through systemic reform of regular education?

[16]For an analysis and discussion of some of these issues based on a purposive sample of 120 schools in five states see Chambers, Parrish, Goertz, Marder, and Padilla (1993). For analyses using national data, see Parrish and Matsumoto (1994, forthcoming).

VII. Other Possible Changes in Part B Funding Mechanisms

In addition to the possibilities of population-based funding and a Part B poverty adjustment, other issues may be considered in relation to Part B funding. Should the formula provide more funding for children with more severe disabilities or higher cost placements? Should other factors be added to the formula that will correct for differences in costs among the states, provide incentives for greater intrastate equalization of school funds, or place limits on the growth in special education? The following sections address these possible changes to Part B funding.

Program-Based Cost Adjustments

The fiscal provisions of the IDEA, in which the funding received is unaffected by the cost of service, creates a fiscal incentive to place students in less costly programs (Moore, Walker, and Holland, July 1982). A counterbalance would "weight" the formula by providing relatively more funding for students in higher cost programs (Chambers and Hartman, 1983). Many state special education funding systems attempt to incorporate these types of programmatic cost adjustments by awarding differential funding based on the primary settings in which services are received or based on the child's exceptionality. Similarly, funding differentials based on disability reflect research findings that, on average, the need for supplemental special education services varies with the students' primary disability.[17]

[17]For a full discussion of the alternative special education finance formulas found in the states, as well as descriptions for each state, see O'Reilly (1993); Verstegen and Cox (1992).

However, available research also suggests that these types of funding approaches tend to result in student placements into more severe disability categories and more costly services (Dempsey and Fuchs, 1993). Concern over these types of fiscal incentives have escalated with the realization that, in practice, these more costly placements also tend to be more restrictive.

Conversely, higher funding weights for students receiving services in the regular school classroom would create incentives to serve more children in that setting. The question of whether the formula should be weighted to reflect program placement differentials, therefore, needs to consider potential incentives created by such a change, in addition to how change might be structured to provide coherent policy that matches incentives to federal priorities.

As federal policy is clear regarding the promotion of least restrictive placements, pupil weighting systems creating disincentives in this regard would clearly run counter to the federal interest. Conversely, a funding system designed to be weighted in favor of less restrictive placements—for example, regular classroom placements—could also be problematic. Less restrictive is a relative concept (e.g., less than what), and could be difficult to define and measure precisely. For example, such policies might inadvertently contain incentives for regular classroom placements with inadequate support systems, running counter to the federal interest.

Another option would be to devise a weighting system based on the intensity or quantity of special services received, regardless of the setting in which they are provided. This would link funding to program cost, while not necessarily providing an incentive for more restrictive placements. However, such a typology of service intensity has yet to be developed and could be burdensome to track. Regardless of the system, policy clarification may be needed to indicate that funding should follow the child under inclusionary practices (i.e., into a regular classroom or a less restrictive environment), and that state formulas should contain provisions to compensate localities for additional costs associated with educating special education students in the regular classroom.

Resource Cost Adjustments

Another potential formula adjustment is associated with the varying costs faced by different types of districts and across states. Just as the cost of living is known to vary across communities and across the states, fairly substantial differences in the cost of education have also been shown to exist (Chambers, 1981a; Chambers, 1981b; Chambers, 1980). Due to factors beyond local control, the cost of educational resources is higher in some communities and states than in others. Across these types of localities, equal dollars for education will result in unequal educational resources.

Based on the rationale that it is resources, or *overall access to programs and services that should be equalized*, some argue that resource cost adjustments should be built into allocations of education dollars. They argue that, given regional cost differences, low cost areas gain under the present system and uniform dollar allocations result in unequal amounts of programs and services across locales. For example, the ESEA, Title I, Chapter 1 program, the largest federal aid program for the schools, contains a cost adjustment of this type. Allocations of these funds, which are primarily based on the number of eligible children, are adjusted (with limits of 80 and 120 percent) by a factor reflecting the average state per pupil expenditure (SPPE). This is done in an effort to recognize differences in costs across the states. However, criticism has been directed at the use of the SPPE as a cost adjustment factor (reviewed in Riddle, 1992). Questions remain as to what factor could more appropriately be used in its place and whether such cost adjustments should also be applied to federal special education funding. [18]

Capping the Growth in Eligible Students

One strategy for addressing the rising number of students eligible for special education services is to limit the percentage of students served in high-growth, mild disability categories such as specific learning disabilities, who could receive federal aid. Currently, under the IDEA, total federal funding is allocated for all students, aged 3 through 21, receiving special education, up to 12 percent of the population.

A funding ceiling on eligible students for specific disability categories appears to provide a temporary solution to problems of rising eligibility in high-prevalence categories. However, it is likely that if caps were imposed, additional students requiring services would be reclassified in another

[18] A cost of education index has long been discussed as a possible alternative. Such an index is currently being produced by Jay Chambers at the American Institutes for Research (AIR), Palo Alto, CA, under contract with the National Center for Education Statistics (NCES).

category, such as mentally retarded or developmental disability, in an effort to secure needed services, while others would presumably have their needs unmet (Reynolds and Lakin, 1987).

A more workable strategy along these lines may be to improve administrative oversight by requiring an explanation of high counts in districts or states where the number of students classified into certain categories is unusually high. For example, Vermont requires school districts with a special education enrollment over 20 percent of the statewide average to explain their high count. Such districts may also be required to improve their policies and procedures to avoid financial sanctions.

Summary of Other Changes Under the IDEA

Which of the other potential changes under the IDEA discussed above seem most worthy of serious consideration? The adoption of program-based cost adjustments would clearly appear to run counter to national trends to move away from incentives that might result in more restrictive placements or the assignment of more severe disability labels. Such incentives would also contrast with current federal policy. The use of resource cost adjustments to equalize educational resources, rather than nominal dollars, merits consideration. Although Chapter 1 allocations are adjusted by state on the basis of average per pupil expenditures, this type of weak proxy for a cost-of-education index would be open to challenge and is probably not worth considering at this time.[19]

In addition, all of these modifications to the IDEA funding would likely have redistribution effects across the states. If funding under the IDEA were adjusted by any of these alternatives, shifts in revenue between states would occur unless additional federal funds were provided or states were held harmless at current support levels.

[19]As described in Footnote 18, a project to develop national cost-of-education indices is currently being completed under contract with NCES. These indices could be considered as a basis for future costadjustments to federal funds.

VIII. The Use of Part B Funds to Influence State Policy

In addition to direct alterations to the Part B funding mechanism, federal fiscal policy relating to the allocation of Part B aid could also be altered in other ways that might influence state and local special education policies. Such policy changes could take several alternative forms. States and localities could be protected from federal funding reductions under the IDEA, at least on a trial basis, to encourage states to strike a balance between important protections and needed reforms that the federal government may wish to test and encourage. An example of this type of intervention is described above, under the section on population-based funding to states. Other types of interventions could include the issuance of supplemental grants to foster specified policies or to target high concentrations of poverty, or the withholding of federal funds if state policies are found to thwart or somehow be in opposition to realizing the full set of goals and objectives under Part B.

State Special Education Funding Provisions and Least Restrictive Environment (LRE)

Perhaps the primary example of state policies that may thwart some of the basic principles under Part B is in the case of state special education finance policies and the need to assure that special education services are being provided in the least restrictive environment. Federal policy under the IDEA has always required that special education services be provided to students "in the least restrictive environment" (LRE). Although the LRE has always been part of federal law, concerns are increasingly expressed that special education services are being offered under a dual system of service provision. For example, in a recent evaluation of the restrictiveness of placements in the states, the Arc (formerly the Association for Retarded Citizens) gave failing grades to all but eight states (Davis, 1992).

Because most of the current state special education funding provisions were developed prior to the recent movement toward inclusion, questions have arisen about the relationship of the LRE provisions to the promotion of more inclusionary practices. Certain state funding provisions may indeed produce disincentives to less restrictive services, and in some instances more integrated service models may not even qualify for supplemental state special education aid. This leads to questions of whether certain types of state funding formulas create incentives for more restrictive placements and, if they do, whether the federal government should intervene in some manner to mediate this situation.

All special education funding systems contain some types of placement incentives, and some *do* reward more restrictive placements. This pattern was documented in Tennessee by Dempsey and Fuchs (1993), who tracked special education placement patterns before and after state finance reform. Dennis Kane, the state special education director in Vermont, cites years of slow progress in reducing the restrictiveness of placement patterns. However, in 1988, Vermont's funding formula was changed to become more placement neutral. Kane reports that with this funding change, resistance to the greater integration of special education students "seemed to melt away" (Kane, 1988).

However, there appears to be no evidence that states are designing their funding formulas in order to foster more restrictive placements. Rather, these types of incentives appear to be artifacts of funding systems that were much more focused on other finance issues, such as the adequacy and costs of funding and the ability to track and audit federal funds. In fact, in a recent telephone survey by CSEF, a number of state special education directors indicated that the desire to promote greater integration has been a major impetus to their reform efforts.

Incentives for Restrictive Placements

Incentives for restrictive placement are most likely to be found in state funding systems that are tied to the location in which the services are provided. This type of incentive will occur any time that a more restrictive placement will generate more state aid in relation to local costs than its less restrictive alternative. For example, Parrish (1987) found that many districts in California faced incentives to place severely emotionally disturbed students in private settings. Even though comparable services could have been provided at less cost within the public system, a dual funding system for publicly and privately provided services encouraged districts to use the more expensive private placements. Similar trends in other states have also been observed by Sage and Guarino (1974), Feldman (1984), Lay (1977), and Bloom and Garfunkel (1981).

Similar types of incentives can occur for alternative types of placements entirely within the public system. For example, if a district will receive full state support for placing a child in a high cost and more restrictive setting, but only partial or no support for a less restrictive placement, the cost to the district may be minimized through the high cost placement.

How To Make State Funding Formulas More Placement Neutral

No single strategy for making funding formulas more placement neutral will work well in all states. As an example, federal special education funding under the IDEA is said to be "placement neutral" because it provides flat-grant (uniform) funding that is simply based on the number of students identified as special education up to a funding cap of 12 percent—regardless of the place in which services are provided or the severity of disability category. Oregon uses a variation of this type of flat grant in the form of a single funding weight for all special education students. For every special education student (up to a maximum of 11 percent), districts receive twice the funding amount of a regular education student, regardless of where special education students are placed or the types of services they receive. Likewise, Idaho provides a single weight across all disabilities. Pennsylvania, Vermont, and Massachusetts primarily fund special education services based on total district enrollment. These types of funding formulas generally do not contain incentives for more restrictive placements. Several states, such as Utah, base costs on schemes that vary by service intensity—in essence providing additional assistance based on needs but without labels; in principle, service intensity funding policies are also placement neutral.

True incentives for more restrictive placement only occur when, for whatever reason, the cost of service *borne by the district* is greater in less restrictive placements. Theoretically, this could occur under any type of funding system. However, funding systems based on the location in which the services are provided are most likely to contain incentives for more restrictive placements.

Conversely, under some of the newly developed funding systems, as found in Oregon, Pennsylvania, and Vermont, incentives may be created for less costly placements. This may be beneficial if these lower cost services are less restrictive and remain sufficient to meet the needs of the student. However, some educators, parents, and advocacy groups have expressed concerns that the movement toward less restrictive placements may lead to insufficient services for students with special needs. Some argue that placement in regular classrooms, without appropriate levels of funding that will ensure adequate support mechanisms, may become more restrictive for students with special needs; and that provisions must be made to assure that special education funding follows the child regardless of the place where services are provided.

Federal Policy Options

Noting that prior federal policy regarding the need for greater integration has often been ambiguous, some state and local policymakers question federal resolve on this issue. However, the federal interest seems clear. Statutory language from the IDEA [Section 614(a)(1)(C)(iv)] requires the states to have

> . . . established procedures to assure that, to the maximum extent appropriate, children with disabilities are educated with children who are not disabled, and that special classes, separate schooling, or other removal of children with disabilities from the regular educational environment occurs only when the nature or severity of the disability is such that education in regular classes with the use of supplementary aids and services cannot be achieved satisfactorily.

Therefore, state funding policy containing incentives for more restrictive placements clearly conflicts with federal policy. What is the range of options, then, available to the federal government for promoting alternative forms of state fiscal policy?

■ Make no change in federal funding policy, since many states are currently attempting to make appropriate changes to their funding formulas.

As reported above, many state and local special education directors are actively working for funding reform in order to remove incentives that reward more restrictive placements. However, they seem to be facing some important problems. First, while the relationship between funding provisions and inclusion will be clear to some state policymakers, the technicalities and complexities involved in special education financing means that considerable attention to this area may be required for others. Second, even when this relationship is clear, local providers may have more limited inclusionary goals and may not see the current state funding formula as a problem. Third, even those policymakers who recognize the current formula as a problem may not know exactly how to resolve it. State special education funding formulas all reflect a balance of trade-offs among competing policy goals (e.g., flexibility versus accountability). Simple fixes to state formulas are generally elusive because such policy goals as enhancing inclusion often conflict with other goals for state funding policy such as the promotion of equity, adequacy, and accountability. Given the complexity of the problem and current efforts at reform across the states, adjustments in federal fiscal policy may be premature.

■ Require state funding provisions that are placement neutral as a prerequisite to receiving federal funds.

Although it is not clear exactly what form an ideal state special education funding approach should take, the removal of incentives for restrictive placements clearly should be one component and the addition of incentives for the provision of supplementary aid for regular classroom placements, another. But other competing concerns could result in some very complex negotiations with states over the exact nature of these incentives and the extent to which they exist. The federal government could become embroiled in a regulatory nightmare. These difficulties might be [illegible]ed by placing the burden of proof on the states to show placement neutrality and using actual statewide placement data as an important evaluative criterion.

■ Unify the federal position.

The statutory language in the IDEA refers to inclusionary concepts and to the need for a continuum of services. However, federal policy regarding the need for an increased emphasis on providing services in integrated settings often appears unclear to state and local policymakers. Many argue that state policy overall appears to be ahead of the federal government on many of these issues. Clear federal policies or executive guidance that suggest how states should behave may be more effective in the long run than increased federal mandates. The lack of full funding for the IDEA and the lack of clarity at the federal level on many of these issues remain sore points with the states. Federal policy may be more likely to affect local policy by the example it sets and the clear messages it sends than by any other mechanism at its disposal.

- **Provide education, technical assistance, and monitoring.**

The types of interventions most likely to lead states to change may come in the form of clear federal criteria for best practice, monitoring and reporting on the basis of these criteria, research, education, evaluation, training, technical assistance, and the dissemination of information. Interviews with state special education directors and meetings in states with special education finance reform committees clearly convey the impression that many states are currently in a position to make meaningful changes in the way they fund special education, but are struggling with how to best structure and implement reform. States need assistance in assuring that the old provisions are not simply replaced with a new set of problems. They also need help in their efforts to learn collaboratively from each other. The federal government may wish to develop a grant program to assist the states in obtaining such technical assistance.

State-level fiscal incentives to serve students in restrictive settings must be eliminated if the LRE principle embodied in the IDEA is to be fully fostered in the states. Otherwise, while districts are being *asked* to do one thing, they are being *paid* to do another. Such policy ambivalence will not foster inclusion. However, it is not clear that a single type of formula will be ideal for all states. State policies that discourage more costly, restrictive placements may in fact encourage less costly, and in some cases inadequate, levels of service. In addition to concerns about the adequacy of services, provisions for placement neutrality may also conflict with other special education fiscal policy goals such as equity and accountability.

Linking Aid to Overall School Finance Equalization

Another issue that could be considered under federal special education finance reform is the relationship between special education funding and overall state and federal education finance equalization goals. For example, the receipt of federal Part B allocations might be predicated on whether school finances within the state meet some specified equalization criteria. To illustrate, a limit might be set on the allowable gap in average expenditures per pupil between wealthy and poor districts within a state as a condition for the receipt of aid under the IDEA.

The linkage between special education funding goals and goals related to education expenditure equalization can be considered essential from several perspectives. First, the federal government has an overall interest in the equalization of educational opportunity across the nation. As the IDEA is the second largest federal funding source for education, it provides an opportunity to influence states regarding the general equity of their educational funding systems.

Second, categorical funding sources such as special education funding are designed as supplements to basic regular education funding. This supplemental funding is based on the concept that students with special needs require support in addition to that received under regular education finance formulas. However, the quality of the overall education received by children with disabilities may vary dramatically across districts, regardless of the adequacy of special education funds, if the regular education formula is not substantially equalized. For example, low revenue districts may have larger class sizes or fewer student support services, which will increase the pressures on, and the need for, special education services.

Basing the total state grant allocation under the IDEA on whether a state has met some equalization criteria for regular program spending within its borders addresses reform directly, and has received attention of lawmakers in deliberations over other federal aid initiatives (U.S. House of Representatives, 1990). Critics of such an approach, however, argue that public education is primarily an endeavor that has been left to the states and that the overall federal financial investment is insufficient to have such a major impact on state education policy. They contend that the use of the IDEA funds to further overall school finance equalization goals are likely to be viewed by many as not in keeping with the basic purpose of the IDEA. This law was designed to create a legal entitlement and to develop programs for students with special needs. In addition, if such a policy was applied to withhold federal funds from unequalized states, vital support would be withdrawn from the students the IDEA was designed to assist.

Therefore, although the federal government has a clear interest in overall school finance equalization, federal special education allocations are probably insufficient to substantially affect state allocation policies. However, if *all* federal K-12 education revenues were withheld from states in violation of some prescribed equalization standard, the combination of revenue withheld and national focus might be sufficient to guide and drive state funding reform. Likewise, a restructured and broadened *interdistrict* comparability standard applied to all affected federal elementary and secondary school policies would significantly increase the equity and impact of federal aid. Such a unified federal approach would appropriately present state school finance equity as an overall federal interest that is not tied to a single program such as special education.

IX. Issues Relating to the IDEA and Chapter 1 Handicapped Funding

A recurring issue regarding the fiscal provisions of the IDEA is the possible merging of the Part B funding under this Act with the funds for children with disabilities allocated under the Chapter 1 Handicapped Program. This latter program was established by Congress in 1965 through the enactment of Public Law 89-313, which amended Title I of the Elementary and Secondary Education Act (ESEA). This program was primarily designed to help states finance educational services for children with disabilities, most of whom were severely, profoundly, or multiply disabled, and in state-operated or supported institutions. Ten years later, Congress enacted a much larger program under Public Law 94-142, the Education of All Handicapped Children Act (renamed the Individuals With Disabilities Education Act in 1990). This law required the states to assure an adequate education for *all* exceptional children and provided additional federal financial assistance for this purpose.

The Relationship Between Chapter 1 Handicapped and the IDEA

Since the passage of the IDEA, the role of the Chapter 1 Handicapped program and its relationship to the much larger IDEA entitlement program has been questioned. Do these two separate programs have unique roles to play in fostering and financing services for students with disabilities? Do they provide separate types of services and should they continue to be operated and funded separately? These questions were formally addressed by a study conducted by the U.S. Government Accounting Office (GAO, 1989) as directed by Congress. The purpose of this study was to report on these and related questions and to recommend legislative changes where appropriate.

The GAO report found that considerable overlap had arisen between the two programs over the years and that the Chapter 1 Handicapped program was being interpreted very differently and being used for varying purposes across the states. At the time that the IDEA was passed, the specific role that appeared to remain for the much smaller Chapter 1 Handicapped program was to provide more substantial federal aid for severely disabled students in state-operated or supported institutions. However, because this type of separation appeared to create a fiscal incentive to place students in more restrictive state-operated placements. Consequently, in 1974 the Congress added a provision to encourage states to transfer these Chapter 1 Handicapped students back to their local districts. This provision allowed districts to continue to count these transferred students for the more substantial Chapter 1 Handicapped allocation.

Although this transfer provision was in keeping with the requirement under the IDEA to serve children with disabilities "to the maximum extent appropriate" with nondisabled children, it also further blurred the distinction between the Chapter 1 Handicapped program and the IDEA. Separating the purpose of these two programs was complicated by the Department of Education ruling that the states were allowed to claim all preschool children with disabilities under the Chapter 1 Handicapped program. At the time of the GAO report, it was found that 45 states counted children with disabilities in preschool programs with conditions not considered severe by experts and state officials under the Chapter 1 Handicapped Program. In addition, a national study, conducted in January 1987, showed that 48 percent of the children in the program under the age of five were not severely disabled.[20]

This was further complicated by the fact that under the Chapter 1 Handicapped transfer provision, once these preschool children had been counted in this program, they could be transferred to local school districts upon reaching school age and continue to be counted for the more substantial Chapter 1

[20]Based on a national survey of states conducted by a committee organized by persons within state education agencies who were assigned the responsibility of coordinating Chapter 1 activities within their state.

Handicapped aid regardless of whether their disabilities were severe or mild as long as they continued to receive special education services.

This has resulted in a vast disparity across the states in regard to the extent to which this funding source is utilized to purchase services for students with disabilities and in the ways it is used. For example, for the 1992 fiscal year, while 30 of the states and territories claimed less than 5 percent of their total special education population under this Chapter 1 program, Alaska claimed 22 percent, Delaware 19.9 percent, and Illinois 17.9 percent. The GAO report found that "four states that count children with handicaps generally not considered to be severe received nearly one-half of all program funds." This ambiguity occurs because "neither the legislation nor regulations specifically limit eligibility to the severely handicapped . . . This lack of specific language means that states must decide who to include in the program" (GAO, 1989).

The GAO report concludes that Congress should restructure the Chapter 1 Handicapped Program to eliminate funding imbalances and to better assure that all states focus on children with severe disabilities. Specifically, the GAO recommended that (a) program funds be allocated to states on the basis of their percentage of the nation's total population of children with disabilities, (b) the program's funding transfer provision be eliminated, and (c) program funds be used to serve only those children that the states identify as severely disabled in state-operated and supported facilities and public schools.

At the time of this report (1989), the GAO indicated that the Department of Education generally agreed with its recommendations for resolving funding imbalances, eliminating the transfer provision, and merging the programs. The GAO also reported that 69 percent of the Chapter 1 state program coordinators had no objection to combining the programs, providing that the funding authority for the two programs remains separate.

Despite the evidence of duplication across the two programs and inequitable distribution of Chapter 1 Handicapped funds across the states, thus far, the proponents of change have been unsuccessful in merging the two programs.[21] However, although Congress has continued Chapter 1

[21] For example, in the year prior to the report, California with nine percent of the nation's students with disabilities accounted for less than one percent of the Chapter 1 Handicapped population as compared to New York, which with 6.5 percent of the nation's disabled enrollments, claimed 17 percent of the students eligible for Chapter 1 Handicapped dollars (GAO, 1989).

Handicapped funding, the financial support for this program has been gradually reduced over time. For example, in school year 1988-89, school districts received an average of $581 for each disabled child in Chapter 1, as compared to $331 for each IDEA program participant. Since this time, the funding per student for the two programs has become virtually identical in many states, although Chapter 1 Handicapped funding still remains higher in states with high per-pupil expenditures. This is because, unlike the IDEA funds, Chapter 1 funds per student are adjusted for each state to reflect variations in overall expenditures per pupil.[22] For example, for fiscal year 1993, the per-student share under the Chapter 1 Handicapped program ranged from a low of $330 per student in 13 states, to $495 in nine states. This range compares to a uniform $420 per student Part B allocation across all of the states.

When the Chapter 1 Handicapped funding was uniformly greater than the IDEA in all states, there was a clear incentive for states to qualify as many students with disabilities as possible under the Chapter 1 Handicapped program. As virtually all students aged 3 through 21 qualifying for Chapter 1 Handicapped funds would also qualify for funding under Part B, and as students could not be counted under both programs, states faced a fiscal incentive to choose the Chapter 1 Handicapped program when possible. This incentive remains in states where Chapter 1 Handicapped funding still exceeds Part B, but increasingly appears to be less of an issue.

For a few selected states, however, despite the narrowing of the revenue gap per student for these two programs, the impact of the discontinuance of Chapter 1 Handicapped funding could be substantial. For example, a position paper jointly written by officials from the Departments of Education and Health in Massachusetts describes the impact on their state if the Chapter 1 Handicapped program were to be discontinued. They note that their state ranks third among the states in receipt of Chapter 1 Handicapped funds, claiming 8.5 percent of the total award, even though they only rank 14th in total age 3 through 21 population. They foresee the loss of funds from three separate causes: (a) 5,549 birth through age two children claimed under Chapter 1 Handicapped, who would be ineligible under the IDEA, which only counts students aged 3 through 21, for a loss of $3.4 million;

[22]The Chapter 1 allocation per pupil is higher in states with higher education expenditures per pupil based on the argument that this is a good proxy for variations in the cost of providing educational services.

(b) a loss of approximately two million dollars due to the lower allocation received by students under the IDEA, for those students, aged 3 through 21, who would be theoretically eligible to be transferred to the IDEA funding; and (c) an additional six million dollar loss because these 3 through 21 year old students actually could not be transferred from Chapter 1 Handicapped to the IDEA funding in Massachusetts because the state is already at its 12 percent IDEA funding cap. Without safeguards, they estimate a federal revenue loss of over 12 million dollars per year, which would "probably eliminate many programs available for children with special needs."

Concerns Regarding the Birth Through Two Population

For the majority of the states that have traditionally received substantial allocations under the Chapter 1 Handicapped program, the major issue seems to be retaining eligibility for their birth through two population of infants and toddlers with disabilities. Although a number of states traditionally counted these students under the Chapter 1 Handicapped program, greater attention was focused on this population across all of the states after the passage of Part H of the Education of the Handicapped Act Amendments in 1986. Part H provided grants to assist the states in developing programs of early intervention services for infants and toddlers with disabilities and their families.

Although Part H provided funding to the states that could technically be used to fund direct services, this funding source was relatively small on a per-student basis and was primarily designed to provide "glue money" to the states to help them to join existing funding sources and programs into a single, coherent system of service provision. As more states studied funding sources for these programs, the Chapter 1 Handicapped program became an important additional source of funds. It was important because the Department of Education had determined that all infants and toddlers with disabilities could qualify, regardless of severity, and because this population of children was not eligible for support under the IDEA. Thus, for the age 3 through 21 population of students with disabilities, the Chapter 1 Handicapped program generally remained the program of choice only as long as it remained the larger of the two funding sources. However, as disabled infants and toddlers did not qualify for the IDEA funding, there was no real choice. As long as these states were in the Part H program, these students would qualify for Part H funds and they could also qualify for Chapter 1 Handicapped funds. All the states had to do was claim them. In many states, the Chapter 1 Handicapped program became a major funding source for the early intervention Part H program.

Although all infants and toddlers with disabilities in preschool programs can qualify for Chapter 1 Handicapped dollars, many states still do not claim these children for this federal funding source. This is illustrative of the considerable confusion that continues to surround the Chapter 1 Handicapped program. For example, while 16 of the states and territories claim 100 percent of their Part H eligible population, 10 states claim less than 10 percent of this population. Massachusetts claims all 5,549 of its Part H eligible population for the Chapter 1 Handicapped program, while Ohio does not claim any of its 12,711 Part H students for this program.

In interviewing state directors regarding the potential merger of these two programs, the majority of the respondents felt that the elimination of the Chapter 1 Handicapped program was long overdue. For example, Arizona reported that it is currently in its last year of using these funds for children transferring into public schools. This year Arizona receives nine dollars per child more under Chapter 1 Handicapped than under Part B; next year's projection is less. The Alabama respondent reported that "As there is no real difference, let's go with it." A respondent from a western state said that the programs should be merged because the Chapter 1 Handicapped program is so small it is difficult to handle. Besides, the "eastern states are pulling out all of the funds under this program."

However, respondents in states that have become reliant on Chapter 1 Handicapped dollars have expressed concerns about a potential merger. The director of one such state responded, "It is to our advantage for it to remain as is. But we see the writing on the wall." If the two programs are merged, these states would like the following to be considered: (a) retaining the use of the Chapter 1 Handicapped funds for the infant and toddler population; (b) retaining some mechanism for maintaining support for programs for developmentally delayed infants and toddlers not run by LEAs or SEAs; and (c) implementing a gradual phase-out to lessen the blow for states that have become reliant on the program. A director from a western state questioned that if the Chapter 1 Handicapped program were collapsed into Part B, "then how would we fund our Part H program?"

Other Unique Elements of Chapter 1 Handicapped

The IDEA and Chapter 1 Handicapped programs are fundamentally the same in terms of the due process rights of the students participating in them. In both cases IEPs are required and the funds must supplement, not supplant, prior state and local efforts. However, proponents of the Chapter 1 Handicapped program point out a few of the important, unique elements of this program.

First, under the Chapter 1 Handicapped program, the dollars must follow the child. For example, in Illinois, some students are served through the Department of Mental Health. If districts claim P. L. 89-313 dollars for these students, they must show that the dollars are following these students, ensuring better student-based accountability for the state. Conversely, under Part B, the dollars need not follow the child. The stated priorities under this provision are that the money first be used to serve the unserved, then to serve the underserved, and last to retain maintenance of effort requirements. However, in response to this claimed strength of the Chapter 1 Handicapped program, in its 1989 study the GAO found that 6 of the 24 locations they visited did not comply with the requirement that each disabled child counted from Chapter 1 Handicapped funding allocations receive at least some services from this program.

Others claim that a virtue of the Chapter 1 Handicapped program is that since 100 percent of these funds follow students, they may not be used for administrative purposes. Of the Part B funds, only 75 percent must go to the schools. Twenty percent of the funds may be reserved for discretionary use and five percent may be used for state administrative purposes. Although some may argue that Part B is flawed in this respect as compared to the Chapter 1 Handicapped program, many state directorates are heavily reliant on this five percent of Part B dollars and on this 20 percent of federal monies that are the only real discretionary dollars they have for such activities as statewide demonstration projects and training. Many state directors responded that this discretionary element of Part B is essential to operations and in many ways is still insufficient.

Federal Policy Options

The unique purpose of the Chapter 1 Handicapped program became blurred upon the passage of the IDEA and has become increasingly out of focus over time. The lack of a clear, unique purpose for this program has allowed it to become almost anything that the states have wanted it to be. The result has been a very inequitable distribution of federal resources to a few enterprising states. Although these funds have undoubtedly been used to the benefit of children and now fill important needs, revenues are not directed in any consistent way to serve a clearly specified federal purpose. At a time of scarce educational resources, it appears that the federal government needs to subsume the Chapter 1 Handicapped program under the larger set of purposes defined under the IDEA. This will allow these funds to be allocated in a much more equitable manner, and to be targeted to meet a much more clearly defined set of federal objectives.

How should such a merger be accomplished? From one perspective, it can be argued that a few states have received disproportionate benefit from this program over time and that these funds should be immediately rolled into a more equitable, single distribution system such as the IDEA. On the other hand, these states have not violated federal law in any way, and have come to rely on these funds to provide specific programs that are now well established and that provide important services to students with disabilities. Thus, it seems reasonable that the phase-out for this program should include provisions by which states would not receive less under the single IDEA allocation than they had received under the two programs combined in the previous year. This type of "hold harmless" provision should probably remain in place for two to three years, allowing affected states to make an orderly transition to the new unified, federal special education funding system. Eventually, all of the Chapter 1 Handicapped students aged 3 through 21 will simply be moved to support under the IDEA. However, for some states the incorporation of these two counts of students under the IDEA will result in their exceeding the current IDEA funding cap of 12 percent. This leads to questions about whether this funding cap should be lifted, at least through a phase-in period.

The federal government faces a more difficult set of decisions regarding the continuance of this type of funding for developmentally delayed infants and toddlers. Data from the 1992 fiscal year show that over 66,000 Part H eligible infants and toddlers were receiving Chapter 1 Handicapped support across the nation. Sixteen states received Chapter 1 Handicapped support for 100 percent of their Part H population in 1992. In these and other states, Chapter 1 Handicapped funds have become an important source of support for the implementation and provision of Part H programs. Although these states can be held harmless for the next few years, the federal government will soon need to decide whether to continue this type of support for Part H in all states, or to phase it out in all states over the next few years. It is important that the federal intent to phase this type of funding fully in or out over the next few years be communicated to the states with sufficient notice to allow for some form of orderly transition. It also seems very important that the current highly inequitable system not be maintained into the indefinite future.

X. Summary and Conclusions

The purpose of this paper has been to present selected policy alternatives available to the federal government in considering revisions to current funding policies under the Individuals with Disabilities Education Act (IDEA). These alternatives have included possible changes to the basic funding mechanism of the IDEA, as well as other ways in which the IDEA funding might be used to influence state and local special education policies more directly. Given the nature of current demographic and fiscal projections, it is becoming increasingly important that scarce public resources be used in the most efficient and equitable manner possible.

At approximately eight percent of total support, the federal government is destined to be somewhat of a junior partner to the states in the formation and enactment of special education policies. The federal role is still immensely important, however, and the states look to the federal government for guidance in determining best practice. At the same time, best practice can never be totally determined from a theoretical perspective, but will eventually be determined in the states through the testing and evaluation of alternatives. The federal government can facilitate the emergence of effective models by sponsoring investigations and evaluations in the states, while assuring the rights of all students with disabilities to a free and appropriate education.

This paper has presented four major issues related to the distribution of special education revenue, which confront the federal government as it addresses the reauthorization of the IDEA. These issues include (a) population-based funding, (b) a poverty-based funding adjustment, (c) the possible direct intervention of the federal government through fiscal rewards or sanctions to ensure that the full set of objectives under Part B are being met in the states (including sanctions for state funding systems that provide incentives for restrictive placements and more severe labeling, sanctions for unequalized state funds, and cost adjustments), and (d) the potential merger of the IDEA and Chapter 1 Handicapped funding programs.

A growing number of states have adopted, and many more are considering the adoption of, such innovations as population-based funding. These funding mechanisms are being pursued by the states in an attempt to reduce administrative burden, increase local flexibility, reduce identification and placement incentives, and bring rising special education costs under control. These types of reforms lead to increased flexibility in the ways in which students are served at the local level and are likely to lead to reduced counts of special education students. The federal government may choose to move to a population-based funding system for Part B for the same reasons as the states. However, if this route is not selected, the federal government should give strong consideration to granting "hold harmless" provisions to states with approved reform plans that may reduce their overall counts of special education students. For example, Vermont, Pennsylvania, and Massachusetts might be candidates for such "hold harmless" provisions. A proposed alternative is to allow such "hold harmless" provisions only for selected pilot districts within states. As these tend to be statewide reforms, however, it might be politically difficult to include some districts in a "hold harmless" program while excluding others.

"Hold harmless" provisions could remain in place while careful assessment and monitoring of the effects of these more flexible systems on the services received by students are observed. States that have adopted such systems, as well as many other states currently considering them, are very interested in learning about the effects of their innovations on the services for special education students and the resulting outcomes they produce. The federal government could provide valuable leadership and much needed information by ensuring that high quality and independent assessments are conducted in these reform states. The continuance of "hold harmless" provisions would be contingent on the observed results of such ongoing evaluations.

The question of a poverty adjustment to Part B allocations raises a number of important policy issues. What are the current patterns of special education resource distribution in relation to student poverty? Are high poverty districts across the nation receiving more special education aid as the presence of "at-risk" factors associated with poverty would lead us to expect? If not, then why is this not occurring? More work needs to be done on these important fiscal equity questions. If current allocations are not being distributed in relation to indicators of student need, a Part B poverty adjustment would represent only a small step in addressing what may be a very large national educational resource equity problem. Moreover, an overall review of the interactive effect of all federal education programs that are designed to assist at-risk children may be required. To address this problem fully, the federal government may also need to become more active in promoting greater equity in general school finance within states. If high poverty districts are receiving inadequate levels of state and local resources, federal aid may only partially make up state and local deficiencies rather than offset some of the disadvantages associated with growing up in poverty. A broadened interdistrict comparability standard would address this issue, as would a set-aside of new revenues, targeted to areas of concentrated poverty and utilized for schoolwide programs and services.

Several dangers are associated with the use of rewards and sanctions in relation to Part B fiscal policy. Sanctions in the form of withheld Part B allocations to states with policies that are seen as barriers to the full realization of Part B goals and objectives may, in fact, withdraw federal support from those students most in need of it. It also seems likely to be a politically volatile approach with the potential for withdrawing congressional support for the IDEA in affected states. On the other hand, a policy of supplemental grants to states that enact more positive policies requires some determination of exactly what these policies should be, and some way of assessing how well they are working once adopted. For example, a state school finance system that is highly equalized, but uniformly inadequate, is as undesirable as a malapportioned system. Similarly, a system that clearly fosters less restrictive placements will not ensure appropriate services for students unless it is also ensured that these less restrictive placements are appropriately supported. Thus, "good" and "bad" state policies may be difficult for the federal government to determine and evaluate in any simple and straightforward way.

Rather, a number of states are currently attempting to institute locally defined reforms that they believe will lead to enhanced services for students. Especially in the area of fiscal policy, it is not always easy to know how to formulate policy that will actually foster "best practice" programs. The federal government may be most effective in ensuring that state and local policies fully support the intent of the IDEA by documenting instances in which related provisions—for example, fiscal policies—have worked particularly well in this regard. Technical assistance could also be fostered through a federal grant program in states that wish to implement locally relevant reforms that better support the full intent of the IDEA.

The major concern expressed by states about the federal role in special education is the level of federal financing under the IDEA, and the need to close the gap between current appropriations and the original federal commitment to funding special education. To address state concerns pertaining to "underfunding and overregulation," the federal government might consider increasing the amount of federal aid allocated to states under the IDEA, Part B. However, at least some component of increase in federal support might come in the form of more targeted, rather than general, special education aid. In addition to, or in lieu of, additional funding, states could also be granted relief from concerns related to overregulation in exchange for improved student outcomes. For example, greater flexibility in the use of Chapter 1 and IDEA funds might be afforded districts, allowing them to be more innovative in pursuing more effective and appropriate programming configurations for all students with learning difficulties.

It appears that combining the Chapter 1 Handicapped funding with the IDEA is long overdue. Although Chapter 1 has been used to support important programs in some states, it has become very idiosyncratic in its use and extremely inequitable in its allocations. States should be "held harmless" through this transition period to ensure orderly change and to avoid jeopardizing existing program structures. Over time, the inequities that have been inherent in this system should be removed. Perhaps the largest decision the federal government needs to make regarding such a merger is whether it will, or will not, continue to provide these types of funds in support of Part H programs for developmentally disabled infants and toddlers across the nation.

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